B.C. Hydro
PROUD OF OUR *Service*

Annual Report 1988

CHAIRMAN'S LETTER

I am delighted, on behalf of the Board, management and all employees of B.C. Hydro, to submit the 1988 annual report.

It describes a year of change and challenge. It was a year in which much was accomplished and the report highlights these accomplishments.

L.I. (Larry) Bell, *left Chairman and Chief Executive Officer with* Ron Johnson, *Driver Helper, Kitchener Street*

It was a year in which we had an opportunity to focus on our core business and clearly define the services we provide to British Columbians.

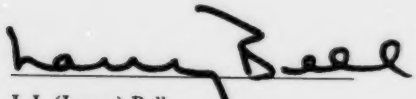
It was a year in which the Gas and Rail divisions' privatization process commenced, an undertaking which has changed substantially the nature of our company.

While it is important to record the achievements of the past, it is even more significant to focus on the future. That's why the report outlines our objectives and describes some of the programs we are putting in place to achieve them.

The progress we have made is a direct result of the efforts of all B.C. Hydro employees.

I thank them for their support and look forward to working together towards meeting the company's objectives.

Yours sincerely,



L.I. (Larry) Bell
Chairman and Chief Executive Officer

BUSINESS OF B.C. HYDRO

British Columbia Hydro and Power Authority is a provincial Crown Corporation established in 1962 to generate, transmit and distribute electricity.

B.C. Hydro's Board of Directors is appointed by the Lieutenant-Governor in Council, and is responsible for the overall direction of the corporation. The corporation's activities are subject to regulation by the British Columbia Utilities Commission.

The third largest electric utility in Canada, Hydro serves more than 1.2 million customers in an area containing over 92 percent of British Columbia's population. Most of the electricity is generated by modern hydroelectric plants which are linked to customers by an interconnected system of transmission lines. Those remote communities not connected to this integrated system are served by small local generating plants.

At B.C. Hydro, we are proud of the service we provide to British Columbians.

C.W.J. (Chris) Boatman
Vice-President, Corporate Affairs and Executive Assistant to the Chairman

TO MAXIMIZE OUR CONTRIBUTION TO THE ECONOMIC DEVELOPMENT OF BRITISH COLUMBIA

PURCHASING IN BRITISH COLUMBIA

B.C. Hydro is committed to contributing to British Columbia's economic development by supporting and where possible, increasing, the number of local suppliers and manufacturers from which we purchase materials and equipment.

In January of 1988, we formed a Supplier Development Department within the Purchasing and Supply Division. Its primary responsibilities are to identify products currently imported from outside the province and then to work with B.C.'s manufacturing industry to determine whether these materials can be produced to the same quality and at competitive prices.

DISCOUNTED RATES

Among the measures taken by the provincial government to offset the recessionary period of the early 1980s were the passing, in 1985, of the Industrial Electricity Rate Discount Act and the Critical Industries Act.

The focus of the Critical Industries Act was B.C.'s mining industry, with five major producers taking part. The program concluded in 1987 after saving 2800 jobs in 12 firms, and bringing $41 million to Hydro and $13 million to the provincial government in extra revenues over the life of the program.

The Industrial Electricity Rate Discount Act was aimed at new companies starting up, and established companies wishing to expand or modernize existing operations.

By co-operating with the provincial government and industry, we have been able to commit nearly eight billion kilowatt hours in surplus power to assist 16 British Columbian mining, petrochemical, forestry and electrochemical companies.

As a result, 1000 permanent jobs and 1500 construction jobs were created. In addition, the program's direct financial benefits are estimated to be, over the life of the program, $85 million in savings to industry, $110 million in revenues to Hydro and $45 million in revenue to the provincial treasury.

B.C. HYDRO INTERNATIONAL LTD.

B.C. Hydro's expertise and experience in designing and operating electric facilities is made available for consulting assignments through our

F.J. (Frank) Klassen, *left*
Vice-President, Finance and Administration

D.G. (Duncan) McLelland, *left*
Coordinator, Supplier Development with
Frank Patton, *West Bay Instruments*
Ltd., North Vancouver

A strong provincial economy is an objective we all share. B.C. is home to many innovative, competitive companies. My job is to encourage and assist them to supply B. C. Hydro. I know that buying from them is a guarantee of quality - and a good deal for B.C.

wholly-owned subsidiary, B.C. Hydro International Ltd.

In addition to overseeing consulting activities, Hydro International, through its international contacts, provides opportunities to the consulting engineering industry in British Columbia.

Among the most notable of the projects with which Hydro International was involved were feasibility studies on the Three Gorges Hydroelectric Project on China's Yangtze River. These studies were funded by the Canadian International Development Agency and carried out in cooperation with private Canadian consulting firms. If constructed, Three Gorges will be one of the largest hydroelectric projects in the world. B.C. Hydro International's share of this $12.9 million study was $1.2 million.

Another contract was the Guri Hydroelectric Project in Venezuela, for the design, supply and installation of state-of-the-art air gap monitoring equipment on 20 large generators. This unique air gap technology was designed and developed by Hydro and is now being marketed internationally.

The Guri Hydroelectric Project contract is worth about $2 million and over 70 percent of the work is, or will be, sub-contracted to B.C.'s private sector.

In addition, Hydro International participated with B.C. consulting firms in joint venture contracts on four projects which realized revenue of $720,000. Total B.C. Hydro International Ltd. revenue for 1987/88 was $3 million.

ENVIRONMENT

We have learned, as a province and as a society in general, that the rich resources of our environment are indeed exhaustible, and demand our concern and protection.

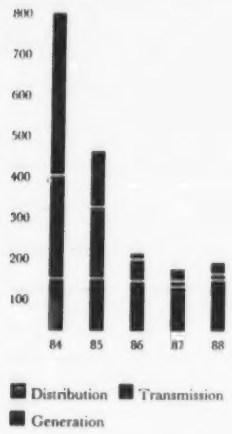
B.C. Hydro recognizes that our activities, by their very nature, have a major impact on the natural resources of the province and on our social and economic future. It is, therefore, our responsibility to protect and enhance these resources in the conduct of our work.

Environmental review and assessment has become an integral part of all phases of our activities. Environmental inspection during construction is standard practice to ensure that protection measures are implemented, conditions monitored and unforeseen matters attended to.

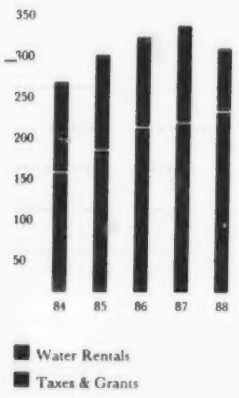
PCB Program

B.C. Hydro has assumed a leadership role in dealing with Polychlorinated Biphenyls (PCBs), which were, at one time, considered a non-toxic cooling agent and as such were widely used by industry.

Electric Service Capital Expenditures
(in millions of dollars)



Revenue to the Province
(in millions of dollars)



Now recognized as a carcinogenic agent, PCBs are the target of an extensive program in our operations. All equipment containing PCBs, located in areas to which the public has access, has been removed and replaced with non-PCB equipment. We have developed and implemented a program to identify, remove and treat all PCB-contaminated equipment.

Working with Ontario Hydro, we have undertaken research to rehabilitate oil contaminated with PCBs. This project led to a joint patent on the process, and we now operate our own PCB decontamination plant. As a further measure to protect our environment from past errors, we are locating and cleaning up our old PCB burial and dump sites throughout the province.

Reservoir Recreation and Enhancement

We are actively involved in managing the potential environmental impact of our reservoirs. For example, we have launched a $10 million, five-year program to assess and enhance fisheries and wildlife in the Williston Lake Reservoir area in northeastern British Columbia.

We are also providing recreational opportunities at our reservoirs, with the lodge and campground created at Stave Lake Reservoir for the use of non-profit groups being just one example.

INVESTMENT IN BRITISH COLUMBIA

In recent years B.C. Hydro has made a conscious shift away from capital expansion, with our current emphasis being one of maintaining and enhancing the reliability of our existing system and achieving greater efficiency to provide superior customer service.

As a result, expenditures which exceeded $1 billion a year during the capital expansion period of the early 1980s have been significantly reduced.

Capital expenditures for the 1987/88 fiscal year were $163 million for the electric service and $32 million for the gas and rail systems. After deducting customer contributions of $30 million towards these expenditures, our net cash outflow was $165 million.

GOVERNMENT REVENUES

Although B.C. Hydro as a Crown corporation is exempt from corporate income taxes, we make a significant contribution to provincial government revenues through water rentals paid on water stored and used for generation. We also pay school taxes on the same basis as all other taxpayers in the province and pay annual grants in lieu of property taxes to municipal and other local governments for general purposes. In the last fiscal year these

payments totalled $306 million.

Hydro pays federal and provincial sales taxes on the same basis as any other business. We also collect sales taxes based on revenue from non-residential customers on behalf of the provincial government.

System Unit Cost
(1988 cents per kW h)

It now costs B.C. Hydro 3.77 cents to generate, transmit and distribute a kilowatt of electricity, the lowest cost of the last five years and below the national average of 4.15 cents.

TO BE THE MOST EFFICIENT UTILITY IN NORTH AMERICA

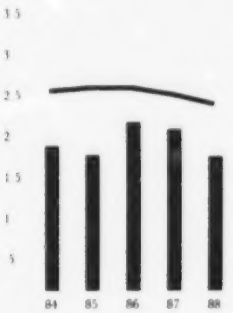
MEASURING OUR UNIT COSTS

B.C. Hydro's business activities fall into three major categories: generating, transmitting and distributing hydroelectric power. The relative annual costs of each of these units as well as the overall system costs are compared to the average annual costs of other utilities in order to measure our efficiency.

While we have been able to achieve a lower than average cost for generating and distributing power, our transmission costs are higher than average. Factors working against us are the extraordinary conditions in the province, including mountainous terrain, severe weather and the distance from generators to load centres – the same factors that impact our reliability.

However, despite the adversities affecting transmission, our overall system cost of generation, transmission and distribution is now below the national average.

Generation Unit Cost
(1988 cents per kW h)



Hydro's generation costs have now decreased to 1985 levels, and remain well below the national average.

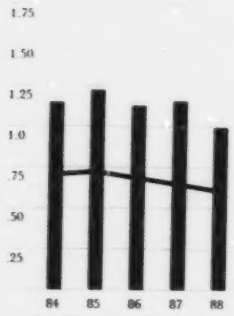
TO BE RECOGNIZED BY OUR CUSTOMERS AS A SUPERIOR MARKETING AND CUSTOMER SERVICE ORIENTED COMPANY

PUBLIC ATTITUDES TOWARD B.C. HYDRO

Understanding and meeting the needs of our customers continues to be a primary objective for B.C. Hydro, and it was for this reason that we commissioned a major research firm to survey more than 700 residential customers. The results were very encouraging.

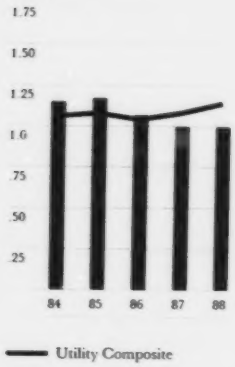
In terms of customer service, the survey indicated that: "B.C. Hydro has a good service image. On a 10 point scale, where 10 represents extremely good service, Hydro receives a rating of 7.6. This is a rating of which Hydro can be proud and is the best of the four organizations tested."

Transmission Unit Cost
(1988 cents per kW·h)



Transmission costs are consistently above the national average, despite great improvements made over the last five years.

Distribution Unit Cost
(1988 cents per kW·h)



Hydro has decreased substantially the cost of distributing power to our customers which, for the last two years, has been well below the national average.

The study also revealed that we have a truly excellent reputation in the critical areas of reliability and fast repairs of outages; that greater public participation is desired in the decision-making process with respect to major projects; that we are seen to have a role in supporting and developing the provincial economy; and that environmental issues continue to require careful handling.

The survey also revealed areas where we need to improve. For example, our customers were less than satisfied with telephone contact and how billing problems are resolved. These problems will be remedied in part by providing our customer representatives with the very latest in tel·communications technology.

The survey has given us a reading of how we are viewed by our customers, a clear understanding of where we need to improve and the standards against which we can measure ourselves in the future. This survey will be repeated, and reported, on an annual basis.

RELIABILITY

No one likes it when the lights go out. We are a society irrevocably linked to electric power for our homes, offices, work sites and recreational pursuits.

That's why the reliability of our service is a primary concern, and why we take pride in our reputation as one of the most reliable systems in the Western World.

Our goal is to ensure that the average number of times our system is interrupted is less than half the national average.

For the last year in which national figures are available, our total System Average Interruption Frequency Index was 0.88 compared to the reported Canadian average of 3.57, and well below our goal of 1.57. This figure is derived by dividing the total number of outages across the province by the total number of electric customers.

For those who did experience a power outage, the average length was 2.65 hours, compared to the national average of 1.52 hours. While this may seem high, it's important to note that our crews are frequently faced with conditions that are both hazardous and difficult due to the wide variations in weather and terrain found in our service area, and the great distances often involved.

J.P. (John) Sheehan, *left Vice-President, Customer Services with* Jack Boersma, *Customer Enquiry Clerk, Deer Lake*

Melinda Straight
Customer Accounts Representative, Metro West

BC Hydro has provided several opportunities to try different job directions. I went from technical work such as drafting, thermography, photogrammetry + engineering to meter reading and customer accounts. Changing careers and job locations provides scope to deal with customers' varied inquiries.

RESPONSE STANDARDS

Hydro's Customer Service Group is continually striving to improve the service we provide, and has now established response standards against which we will be able to measure ourselves. These standards are to:

1. Complete 90 percent of electric service orders within 10 working days of receipt of permit;
2. Respond to 90 percent of multi-customer affected trouble calls within one hour where public safety is a factor, and within two hours in other instances;
3. Respond to 90 percent of customer phone calls within 60 seconds. Hydro now receives approximately 1.5 million calls a year from customers.

We will be reporting on our ability to satisfy these standards on an annual basis in the future.

PUBLIC SAFETY

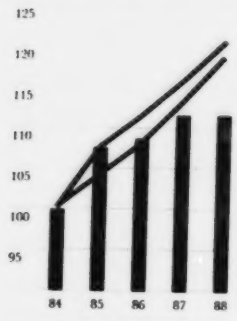
Keeping our customers safe when working with or around electricity is a critical component of Hydro's customer service program.

Although we have devoted much effort to ensuring the energy we provide is transferred safely from the source to the user, there is always a potential for people to be hurt, especially when bad weather or accidents cause equipment to break down or interfere with delivery.

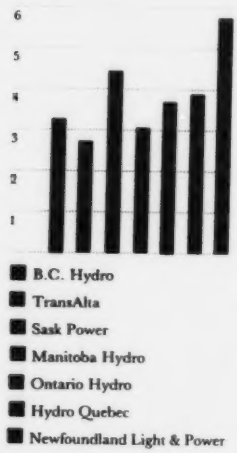
"Be Electrically Alert" is just one of the programs we have developed to educate the public about the possible dangers in dealing with electricity. This popular program is aimed at students in Grades five and six to help them gain a better respect and understanding of the power source on which they rely. Almost all elementary schools throughout the province now take part in "Be Electrically Alert", with 55 000 children participating in the past year.

We have also given seminars and presentations to emergency personnel and the construction industry, participated at trade and consumer shows, and use both television and direct mail to educate the general public.

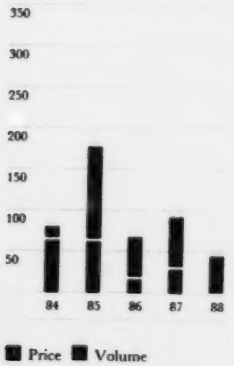
Residential Electricity Price
(price index 1984 = 100)



Canadian Industrial Rates
as at January 1, 1988
(cents / kW·h)



Components of Revenue Increase
(in millions of dollars)



Regrettably, these programs have not yet reduced the number of accidents recorded annually. While fatalities and railway accidents were reduced in 1987/88, all other areas as indicated below have increased.

	1986/87	1987/88
Total public accidents	215	234
Injury accidents	14	21
Fatal accidents	3	1
Accidents involving overhead lines	184	227
Accidents of industrial origin	140	149
Tree felling / trimming accidents	88	111
Downed wires / motor vehicle accidents	21	25
Railway accidents	22	17

OUR CUSTOMERS

The past fiscal year has seen the largest annual increase in B.C. Hydro electric customers since 1982, with 23 284 customers added to the system. Of these, over 20 000 were new residential accounts and approximately 3000 were commercial and industrial accounts. We now serve more than 1.2 million customers within British Columbia.

During this substantial system growth, we maintained our electric rates at the same levels charged in 1986, which are among the lowest set by Canadian utilities. In fact, our electric rates have only increased three and a half percent since 1984, an average of less than one percent per year. This compares with an inflation increase of four percent per year in the same time frame.

Residential Customers

Since 1984, our residential load has grown an average of two percent a year, and now represents 28 percent of our total domestic load. Our residential revenues also increased by two percent in the past year and five percent over the past five years.

R.H. (Ray) Hunt
Vice-President,
System Development

Shannon McGrenera
Meter Reader, Deer Lake

Meter Reading provides an opportunity for day to day customer contact so that some of their general inquiries about BC Hydro can be answered, or they can be referred to the proper department for assistance. I enjoy being out in the field as a representative of the company, and helping to improve the efficiency of the Meter Reading department.

Industrial Transmission Customers

British Columbia's economic recovery is reflected in the increased service we provided our large industrial customers, including the pulp and paper, forestry, mining and manufacturing industries.

In the past five years, our industrial load has increased 45 percent, with electric sales increasing seven percent or 830 GW·h over 1986/87, which is equivalent to the amount of power used by Vancouver Island in an average month.

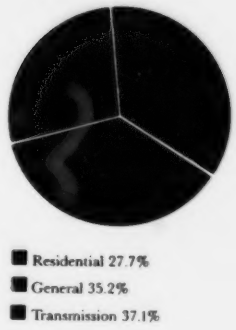
Our large industrial accounts now include 66 companies with 80 accounts worth $373 million in fiscal 1988, and represent 37 percent of the total domestic load.

General and Commercial Accounts

The growth of our residential and industrial accounts is also shared by our general and commercial accounts, including small and large businesses, the service industries, municipalities and government bodies.

General and commercial accounts increased by 2853 in the past year, with revenues increasing by 4.3 percent or $24 million. These accounts now represent 35 percent of our total domestic load.

Electricity Sold By Customer Class
(1988 Volumes)



Residential 27.7%
General 35.2%
Transmission 37.1%

Electricity Sold By Customer Class
(1988 Revenues)

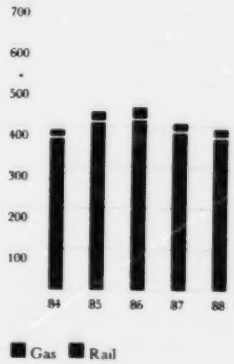
Residential 36.2%
General 39.2%
Transmission 24.6%

GAS SERVICE

Although our gas service increased by 12 000 customers over 1987, annual temperatures almost 10 percent warmer than average led to lower consumption and restricted the volume growth to two percent. Lower gas prices led to a decline in revenues of four percent or $15 million to $370 million.

Interruptible sales to the large industrial and institutional market increased eight percent by volume from 19 488 terajoules to 21 089 terajoules. Lower gas prices, however, resulted in a decrease in revenue of $7 million or 13 percent.

Gas and Rail Revenues
(in millions of dollars)



RAIL SERVICE

A four percent increase in freight carloads, from 43 919 to 45 871, resulted in revenue from freight operations increasing by $1 million to $19 million. This increase was due to the higher volumes of automobiles transported during the year.

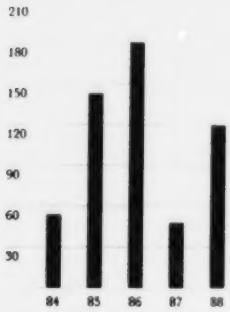
EXPORTS

Exporting British Columbia's secondary hydroelectric power on an "as available" basis is an important source of revenue for B.C. Hydro.

The power we export is actually one of two kinds of power we generate. Firm power is the power available from our system even in the years of lowest water levels, and is committed to meet our domestic demands.

The power we export is secondary power, and is only available when the province has a year of good precipitation. Because secondary power is considered interruptible, the price, quantity and duration is determined daily on the basis of demand and supply available.

Income from Export Sales
(in millions of dollars)



Because secondary power is interruptible, export revenues are volatile and can change significantly from year to year.

Export sales are also affected by external influences, including water levels in the U.S. Pacific Northwest, the price of competing fuels and the availability of transmission line capacity.

During the 1987/88 fiscal year, low water conditions in the Pacific Northwest increased the demand on our system. We also launched a brokerage sales program to export energy purchased from suppliers such as TransAlta Utilities Corporation (TransAlta) in Alberta and Alcan Aluminium Limited (Alcan) in B.C., which provided us with income of $14 million. In total, export sales volumes doubled over the previous year to 9481 million KW·h, with gross revenues showing an increase of $91 million, a dramatic 98 percent, for a total of $184 million.

Despite the uncertainty of this interruptible power, we are a significant exporter and in the 1987/88 fiscal year sold about 16 percent of the total electric energy exported by Canada.

TO BE ONE OF THE BEST EMPLOYERS IN BRITISH COLUMBIA

Although B.C. Hydro has a unique position in the province, we share a very common trait with all other industries and businesses. We can only achieve our goals and objectives with the support and assistance of the 6419 men and women who are our employees. That is why we have an objective to be one of the best employers in British Columbia.

In establishing the Best Employer goal, we have set out to create an organizational climate or culture that will foster and positively reinforce our employees' commitment to the achievement of our corporate objectives and ultimately our mission. The culture which we hope to create is defined by our published values and management principles, which describe the way we go about our business.

A.E. (Art) Geikie
Vice-President,
Human Resources

R.R. (Bob) Hancox
Personnel Officer (Training),
Prince George

The emphasis on employee development has allowed me to move from a customer service role to become a training officer. My teaching background and experience in Hydro enabled me to pursue new opportunities and now I am helping other employees along the same road.

EMPLOYEE ATTITUDE SURVEY

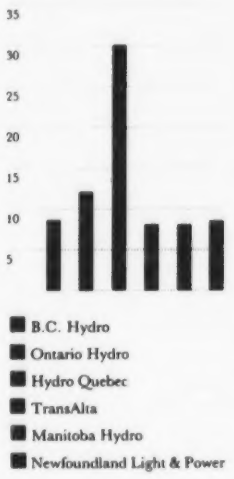
As a first step to being a Best Employer, Hydro commissioned an Employee Attitude Survey. The results were based on a total response of 54 percent of our employees, and we will repeat this survey in the future to measure progress made towards our objective.

The survey showed that overall satisfaction with employment at B.C. Hydro has improved slightly over the last year. This is down from what people recall their satisfaction to be five years ago. It should be remembered that this was prior to an overall reduction in employees from a high of 9733 in 1982 to 6393 in 1987.

The survey also showed that our employees' primary concerns were employment security, professional development opportunities, participation in decision making processes and communications within the company.

We have heard what our employees have said, and are developing specific action plans to deal with these concerns.

Canadian Utilities Disabling Accident Frequency in 1987.



EMPLOYEE SAFETY

Protecting our employees from injuries on the job has been, and will continue to be, a key component in Hydro being one of the province's best employers.

Our objective is to keep the number of disabling or time lost injuries to our employees to less than 10 incidents per million person-hours worked. Unfortunately, over the past two years, our overall ratio has been 12.5 incidents. This ratio is obtained by averaging such higher risk areas as electrical operations, gas and rail with typically low risk areas such as administration.

In addition to statistics kept internally to measure the overall safety of our employees, Hydro is assessed by the Workers' Compensation Board which sets a rate based on past experience.

We have earned an overall WCB Assessment rate equivalent to that for school board employees, people working in doctors' offices and banks. Our disabling injury rate is less than one third of the B.C. industrial average.

Incidents per Million Person Hours Worked

	1987	1986
Electric Operations	11.4	11.6
Engineering	10.2	10.2
Gas	25.1	28.2
Rail	40.9	29.7
Research and Development	13.2	8.6
Administration	10.7	16.9

TRAINING AND DEVELOPMENT

The Employee Attitude Survey showed our employees were concerned with job security and advancement opportunities. This concern will be met in part by our commitment to maintaining a highly competent and flexible workforce. There will be a substantial increase in our training programs.

We have already initiated a major, long-term review of trades training, reinstituted and strengthened our supervisory and management training program, and are planning a significant development program to assist our senior management. We intend to track our success by comparing training costs and using our attitude surveys to measure our employees' perceptions of improvements in training levels.

Hydro is also introducing an innovative career management program that will encourage our employees to assume the responsibility for managing and directing their careers. We will support our employees' efforts by helping them identify career path options and by providing training support and skill development experience. Job rotations to assist employees obtain the experience they require for their chosen career paths will also be encouraged.

COMPENSATION LEVELS SURVEY

A factor of our Best Employer objective is a mandate to provide our employees with a level of pay or compensation comparable to the average of major private British Columbian employers.

In January of 1988, we commissioned a Total Compensation Survey which showed our compensation packages are very competitive with the community. This survey will be repeated and reported on an annual basis.

Total Compensation Index Comparison – B.C. Hydro vs Community (Community Average = 1.00)

EMPLOYEE GROUP	TOTAL CASH	TOTAL COMPENSATION
Clerical	1.09	1.11
Hourly	0.99	1.04
Technical	1.01	1.05
Professional	1.14	1.18
Management	1.13	1.18
Senior Management	0.87	0.88
All Groups	1.05	1.09

P.D. (Don) Swoboda, *right*
Vice-President, Production
with Mike O'Connor,
Sub-Foreman Electrician,
Boundary Headquarters

R.B. (Blair) Trousdel
Manager, Organizational Effectiveness

The opportunity for change can be an important career influence. In some cases doors have been opened to a complete re-direction of career path. My move from a technical environment to Human Resources has brought new perspective and dimension to my personal development.

We have also introduced a new management compensation plan (CORE). This plan assumes that management personnel are paid for the job performed, and are not limited to a specified number of hours of work per week or month. Also, because our management people may not be able to take the time off as specified in their job contracts or agreements, there is now flexibility in converting this time off into cash. We have also strengthened the link between performance and pay and are providing incentives for the achievement of results against key performance objectives through a formal annual management contract.

PLANNING FOR THE FUTURE

B.C. Hydro has an obligation to supply future electricity needs. This obligation is met by a long-term planning process which is open to the scrutiny of the public we serve.

ELECTRIC LOAD FORECAST

Projections for B.C.'s electricity requirements, for both total and peak demands, are made for a 20-year period.

A probable forecast is determined and then a range from high to low is built around it to reflect possible variances and to provide for the unexpected. This range of demands is used to determine Hydro's electric resource requirements and supply additions.

Despite a milder than normal winter in 1987/88, domestic sales were up five percent over the previous year for a total of 36 089 million kW·h. The industrial sector accounted for almost half of this growth, with wood manufacturing and the pulp and paper industry running at near capacity for much of the year.

This growth was considerably higher than forecast the previous year and reflects robust economic conditions in the province.

Anticipated investments in the pulp and paper industry will see future demand growth near three percent per annum on average.

TWENTY YEAR RESOURCE PLAN

Our Resource Plan determines the mix of resources needed to meet demands for electricity while minimizing our total long-term costs. It is critical that the potential risks of investing in new resources unnecessarily or too early are balanced against those of building too late, thereby causing an unreliable supply of electricity and constraining economic development. The plan must also be flexible enough to respond to potentially different outcomes than those anticipated.

If we relied exclusively on existing resources, forecast demands indicate they would be fully utilized within the next five years. That's why we're buying additional power from other energy producers and are helping our customers use electricity more efficiently. But barring a deep economic downturn, it appears that we will need new sources of energy by the mid 1990s.

The Resource Plan, therefore, sets out the optimal mix of resources to be developed to provide electricity at the lowest possible costs compatible with quality of service as well as environment and regulatory concerns. It also schedules the mix of new resources including coordination of Columbia River projects with the Bonneville Power Administration, purchase agreements with Alcan and TransAlta, existing system efficiency improvements and new generation projects.

Assumed within the Plan is the co-generation of electricity, conservation of power and small, independent generators supplementing our resources.

Demand Side Management

We are continuing to make progress with Demand Side Management programs which manage the balance between times of high and low demands on our system through energy initiatives. Our goal is to reduce the energy demand by 3000 GW·h per year, almost the equivalent of the power generated at our 700 megawatt Peace Canyon project. A variety of programs are being developed.

ELECTRIC SYSTEM DEVELOPMENT PLAN

Once we have predicted how much electricity is needed, and how it will be generated or supplied, a Ten Year Electric System Development Plan is used to determine what is required to transmit it to our customers now and in the future.

A variety of facilities are needed to meet our load growth over the next 10 years. These include upgrading transmission lines from the Peace River, additional transmission to the Lower Mainland, area transmission reinforcements to serve new load, and building a second Skeena to Kitimat transmission line and a third Williston to Kelly Lake line to transmit power from Alcan's Kemano Completion Project.

Our Stations capital program now includes 154 projects, of which 71 are associated with transmission additions, six at generating stations, 47 to meet distribution requirements and 30 devoted to miscellaneous items.

Proposed Provincial 500 KV Transmission Grid to 1997

——— Existing

— — — Proposed

(years shown are calendar years)

0 km 250

0 Miles 160

FINANCIAL STATISTICS

years ended March 31

	1988	1987	1986
		(in millions)	
SOURCES OF REVENUE			
Electric	$ 1,718	$ 1,579	$ 1,647
Gas	370	385	423
Rail	22	23	24
	$ 2,110	$ 1,987	$ 2,094
DISPOSITION OF REVENUE			
Employee compensation	$ 247	$ 208	$ 226
Materials and services	71	70	67
Energy purchases	281	280	328
Taxes	306	330	321
Depreciation	237	233	213
Finance charges	875	906	926
	2,017	2,027	2,081
Adjustment for rate stabilization	38	(107)	4
	2,055	1,920	2,085
Loss on passenger transportation operation	—	—	—
Extraordinary items	—	42	—
Employed in the business	55	25	9
	$ 2,110	$ 1,987	$ 2,094
FIXED ASSETS			
In service, at cost	$ 11,044	$ 10,936	$ 10,749
Accumulated depreciation	2,440	2,228	2,037
	$ 8,604	$ 8,708	$ 8,712
Fixed asset expenditures	$ 195	$ 187	$ 224
Contributions in aid of construction	30	27	34
Net fixed asset expenditures	$ 165	$ 160	$ 190
LONG-TERM DEBT	$ 6,445	$ 7,472	$ 8,209
EMPLOYEES AT YEAR-END*			
Regular	5 871	5 998	6 172
Temporary	548	395	336
	6 419	6 393	6 508

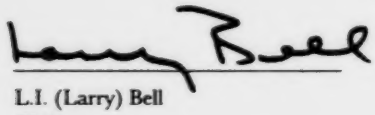
**1978 to 1980 includes passenger transportation employees*

1985	1984	1983	1982	1981	1980	1979	1978
$ 1,513	$ 1,230	$ 1,174	$ 1,130	$ 887	$ 720	$ 672	$ 612
415	361	332	316	185	173	170	136
25	22	22	27	25	23	21	18
$ 1,953	$ 1,613	$ 1,528	$ 1,473	$ 1,097	$ 916	$ 863	$ 766
$ 259	$ 214	$ 212	$ 197	$ 166	$ 144	$ 132	$ 126
66	64	65	72	50	45	44	44
323	276	262	250	142	131	121	95
299	262	254	183	90	71	66	53
229	240	179	153	136	119	107	97
784	520	479	408	400	310	283	262
1,960	1,576	1,451	1,263	984	820	753	677
8	(14)	19	90	—	—	—	—
1,968	1,562	1,470	1,353	984	820	753	677
—	—	—	—	—	56	61	61
—	—	77	—	—	38	—	—
(15)	51	(19)	120	113	2	49	28
$ 1,953	$ 1,613	$ 1,528	$ 1,473	$ 1,097	$ 916	$ 863	$ 766
$ 10,231	$ 8,046	$ 7,566	$ 7,192	$ 6,691	$ 5,991	$ 5,339	$ 4,921
1,824	1,660	1,499	1,345	1,199	1,063	980	878
$ 8,407	$ 6,386	$ 6,067	$ 5,847	$ 5,492	$ 4,928	$ 4,359	$ 4,043
$ 484	$ 820	$ 1,037	$ 1,053	$ 740	$ 755	$ 722	$ 641
31	30	65	37	32	25	19	22
$ 453	$ 790	$ 972	$ 1,016	$ 708	$ 730	$ 703	$ 619
$ 8,387	$ 7,203	$ 6,833	$ 6,425	$ 5,324	$ 5,176	$ 4,739	$ 4,337
6 764	7 739	8 212	8 610	8 441	11 330	11 618	11 611
385	466	455	1 123	1 099	865	932	946
7 149	8 205	8 667	9 733	9 540	12 195	12 550	12 557

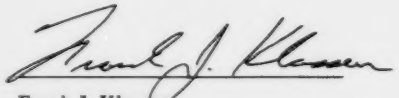
MANAGEMENT REPORT

The financial statements of B.C. Hydro have been prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied and appropriate in the circumstances, after taking into account the changes described in Note 2 in the financial statements. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to the financial statements. The financial statements have also been reviewed by the Audit Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Management depends upon a system of internal controls in order to provide reasonable assurance, on a cost-effective basis, that financial information is reliable and accurate. This system includes formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. This system is monitored through the performance of a comprehensive internal audit program. Our external auditors also independently perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements. The Audit Committee, which is comprised of directors who are not employees, meets regularly with representatives of the external auditors, the internal auditors and management in order to satisfy themselves that B.C. Hydro's system of internal controls is functioning properly.



L.I. (Larry) Bell
Chairman



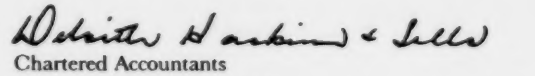
Frank J. Klassen
Vice-President, Finance and Administration

REPORT OF THE AUDITORS

The Lieutenant-Governor in Council, Province of British Columbia:

We have examined the balance sheets of British Columbia Hydro and Power Authority as at March 31, 1988 and 1987 and the statements of income and earnings employed in the business and of changes in financial position for each of the years in the two year period ended March 31, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The statements of income and earnings employed in the business and of changes in financial position of British Columbia Hydro and Power Authority for the year ended March 31, 1986 were examined by other auditors.

In our opinion, the financial statements examined by us present fairly the financial position of British Columbia Hydro and Power Authority as at March 31, 1988 and 1987 and the results of its operations and the changes in its financial position for each of the years in the two year period ended March 31, 1988 in accordance with generally accepted accounting principles applied, except for the change in 1988, with which we concur, in the method of accounting for pension costs and obligations and after giving retroactive effect to the change in 1987, with which we concur, in the method of accounting for unrealized foreign exchange gains and losses on sinking funds, as explained in Note 2 to the financial statements, on a consistent basis.



Chartered Accountants
Vancouver, British Columbia
May 20, 1988
(except as to Note 14 which is as of September 30, 1988)

STATEMENT OF INCOME AND EARNINGS EMPLOYED IN THE BUSINESS

year ended March 31

	1988	1987	1986
		(in millions)	
REVENUES			
Electric – Domestic (Note 3)			
Residential	$ 548	$ 539	$ 517
General	547	524	498
Transmission	373	348	322
Other	66	75	58
	1,534	1,486	1,395
Electric – Export	184	93	252
	1,718	1,579	1,647
Gas (Note 3)	370	385	423
Rail	22	23	24
	2,110	1,987	2,094
EXPENSES			
Employee compensation (Note 5)	247	208	226
Materials and services	71	70	67
Energy purchases	281	280	328
Taxes	306	330	321
Depreciation	237	233	213
	1,142	1,121	1,155
OPERATING INCOME BEFORE FINANCE CHARGES	968	866	939
Finance Charges (Note 9)	875	906	926
OPERATING INCOME (LOSS)	93	(40)	13
Net transfer (to) from rate stabilization account (Note 4)	(38)	107	(4)
INCOME BEFORE EXTRAORDINARY ITEMS	55	67	9
Extraordinary items (Note 12)	—	(42)	—
NET INCOME	55	25	9
EARNINGS EMPLOYED IN THE BUSINESS			
At beginning of year	540	515	506
At end of year	$ 595	$ 540	$ 515

BALANCE SHEET

as at March 31

	1988	1987
	(in millions)	
FIXED ASSETS (Note 6)		
Fixed assets in service	$ 11,044	$ 10,936
Less - Accumulated depreciation	2,440	2,228
	8,604	8,708
Unfinished construction	154	122
	8,758	8,830
CURRENT ASSETS		
Temporary investments	97	24
Accounts receivable and unbilled revenues	314	334
Materials and supplies	42	37
Prepaid expenses	25	49
Property held for sale	35	34
	513	478
UNAMORTIZED DEFERRED CHARGES		
Foreign currency translation	238	428
Discount and issue costs	52	66
	290	494
	$ 9,561	$ 9,802
LONG-TERM LIABILITIES		
Long-term debt (Note 7)	$ 6,445	$ 7,472
Deferred liabilities	25	26
	6,470	7,498
CURRENT LIABILITIES		
Short-term borrowings (Note 8)	612	116
Accounts payable	214	209
Accrued interest	303	323
Long-term debt payments due within one year (Note 7)	625	433
	1,754	1,081
UNAMORTIZED DEFERRED CREDITS		
Rate stabilization account (Note 4)	38	—
Deferred revenue	21	6
Contributions arising from Columbia River Treaty	341	350
Contributions in aid of construction	342	327
	742	683
EARNINGS EMPLOYED IN THE BUSINESS	595	540
	$ 9,561	$ 9,802

APPROVED ON BEHALF OF THE BOARD

L.I. (Larry) Bell, *Chairman*

Sandra D. Sutherland, Q.C., *Director*

STATEMENT OF CHANGES IN FINANCIAL POSITION

years ended March 31

	1988	1987	1986
		(in millions)	
OPERATING ACTIVITIES			
Operating income (loss)	$ 93	$ (40)	$ 13
Depreciation	237	233	213
Amortization of deferred charges	24	26	69
Working capital changes	24	(107)	153
Other	(5)	(8)	14
Funds provided by operating activities	373	104	462
FINANCING ACTIVITIES			
Net short-term borrowings	496	116	—
Long-term debt issues	9	344	87
Long-term debt retirements, net of related sinking funds	(570)	(357)	(87)
Other sinking fund changes	(78)	(261)	(193)
Funds used for financing activities	(143)	(158)	(193)
INVESTING ACTIVITIES			
Fixed asset expenditures	(195)	(187)	(224)
Contributions in aid of construction	30	27	34
Net proceeds from fixed asset retirements	8	12	9
Funds used for investing activities	(157)	(148)	(181)
INCREASE (DECREASE) IN FUNDS	73	(202)	88
FUNDS AT BEGINNING OF YEAR	24	226	138
FUNDS AT END OF YEAR	$ 97	$ 24	$ 226

Funds consist of temporary investments.

NOTES TO FINANCIAL STATEMENTS

(tabular amounts expressed in millions of dollars unless otherwise stated)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

British Columbia Hydro and Power Authority ("B.C. Hydro") is a Crown corporation of the Province of British Columbia (the "Province"). B.C. Hydro is regulated by the British Columbia Utilities Commission (the "Commission"). The accounting policies of the corporation conform to accounting principles generally accepted in Canada. A description of significant accounting policies follows. See Note 4 for an explanation of the rate stabilization account.

REVENUES

Domestic revenues represent sales of energy to customers within the Province and sales of firm energy to those outside the province (mainly Seattle and Point Roberts, Washington State and Hyder, Alaska) with whom B.C. Hydro has long-term commitments.

Export revenues are derived from energy sales made outside the Province other than those classified as domestic. These sales are surplus to B.C. Hydro's domestic energy requirements.

Customers are billed on a cyclical basis for energy deliveries with unbilled deliveries being accrued and included in revenues.

FIXED ASSETS

Fixed assets in service consist principally of land, water rights, storage dams, plant for the generation, transmission and distribution of electricity, the distribution of gas, and freight railway and rolling stock, and include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty.

Fixed assets are carried at cost which includes materials, direct labour and appropriate portions of engineering, administration and finance charges.

Capital development studies and projects which are abandoned or subject to indefinite deferral are written off. Capital development studies for which work is deferred for more than one year are amortized on a straight-line basis at 20% per annum during the deferral period or until fully amortized. Capital projects which are deferred, but for which there is a reasonable probability of proceeding, have a provision made for any reduction in the value of project costs.

DEPRECIATION

Depreciation is provided on all depreciable assets in service as at the beginning of each year based on the average service life of assets and is computed using the straight-line method.

FINANCE CHARGES CAPITALIZED

B.C. Hydro capitalizes finance charges at rates equivalent to the cost of borrowing those funds expended on construction projects during each year of construction.

TEMPORARY INVESTMENTS

Temporary investments are valued at the lower of cost and market.

MATERIALS AND SUPPLIES

Materials and supplies are valued at average cost, less provisions for declines in value.

PROPERTY HELD FOR SALE

Property held for sale is valued at the lower of cost and net realizable value.

FOREIGN CURRENCY TRANSLATION

Long-term debt, sinking funds, current assets and current liabilities denominated in a foreign currency are translated into Canadian currency at the rate of exchange prevailing at the balance sheet date. U.S. currency liabilities which are hedged are converted at the rate established by the terms of the hedge instrument.

Unrealized gains and losses arising from the translation of long-term debt and sinking funds are deferred and amortized over the remaining term of the debt. The annual amortization is determined by dividing the unamortized balance of the gains and losses by the sum of the remaining years, except that for the last four years the unamortized balance is written off on a straight-line basis. Foreign exchange gains and losses on current assets and current liabilities are included in income.

DISCOUNT AND ISSUE COSTS

Discount and issue costs on long-term debt are amortized on a straight-line basis over the term of the respective debt.

DEFERRED REVENUE

Deferred revenue consists primarily of amounts received under the Skagit River Agreements. These amounts are deferred and included in income on an annuity basis over the energy delivery period ending in fiscal 2066.

CONTRIBUTIONS

Contributions in aid of construction are amounts received from certain customers to contribute toward the extension of services. These amounts are amortized over the estimated service lives of the related assets, and the annual amortization is equal to the corresponding provision for depreciation.

Contributions arising from the Columbia River Treaty are amortized over the period ending in fiscal 2025, the minimum term of the Treaty, and the annual amortization is equal to the corresponding provision for depreciation of the related assets.

Contributions received in respect of unfinished construction are included with deferred liabilities until the assets are placed in service.

PENSION COSTS

Pension expense comprises the actuarial costs of pension benefits for employee services for the year in accordance with the terms of the pension plan agreement and amortization of the initial net pension surplus and the cost of past service benefits and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members. Pension fund investments are valued at a five-year average of market value.

NOTE 2 CHANGES IN ACCOUNTING POLICIES

1988

Effective April 1, 1987, B.C. Hydro adopted, on a prospective basis, the recommendations of the Canadian Institute of Chartered Accountants regarding pension costs and obligations. The effect of this change on net income for fiscal 1988 was not material.

1987

Effective April 1, 1986, B.C. Hydro retroactively changed its method of accounting for unrealized foreign exchange gains and losses on sinking funds to deferral and amortization from immediate recognition. Amounts for fiscal 1986 were restated accordingly.

NOTE 3 RATE ADJUSTMENTS

ELECTRIC-DOMESTIC

The Commission approved a rate increase of 1.875% effective June 13, 1985 and a further increase of 1.875% effective April 1, 1986. There have not been any rate increases since that time.

MAINLAND GAS

For each of the past three fiscal years, changes in the cost of gas purchased for resale have resulted in flow-through changes in gas rates for customers. Effective November 1, 1986, the Commission approved a 3.6% interim gas rate increase to compensate B.C. Hydro for increases in expenses other than purchased gas. Revenue derived from this increase was $20 million to March 31, 1988 (of which $7 million related to fiscal 1987) and is subject to refund with interest, in whole or in part, if so ordered by the Commission.

Percentage increases (decreases) in gas rates over the past three fiscal years are noted below:

EFFECTIVE DATE	Firm Customers	Interruptible Customers
	%	%
1988 - January 14, 1988	3.9	2.1
December 7, 1987	(1.1)	1.5
May 1, 1987	(2.5)	(1.7)
1987 - January 15, 1987	0.9	0.5
November 1, 1986	(5.0)	(27.8)
1986 - August 1, 1985	3.6	0.6
June 1, 1985	0.9	(4.3)

NOTE 4 RATE STABILIZATION ACCOUNT

The Commission directed B.C. Hydro to create as of March 31, 1982, an account to be known as the rate stabilization account derived from export sales of surplus electric energy (exclusive of sales made under certain export contracts) less associated direct expenses. Directives over the past three years have resulted in the following transfers to and from the account:

Years ended March 31	1988	1987	1986
Balance at beginning of year	$ —	$ 107	$ 103
Transfer from income to the account	110	56	85
Transfer from the account to income	(72)	(163)	(81)
Net transfer to (from) the account	38	(107)	4
Balance at end of year	$ 38	$ —	$ 107

TRANSFERS TO THE ACCOUNT

For fiscal 1988 and 1987 all revenues from export sales, less direct expenses, were transferred to the account. For fiscal 1986, only revenues from export sales in excess of $130 million, less direct expenses, were transferred to the account.

TRANSFERS FROM THE ACCOUNT

For fiscal 1988, 1987 and 1986, transfers from the account to income were limited to:

1988 - revenues from the first $116 million of export sales, less direct expenses.

1987 - the amount required to reduce the account balance to nil.

1986 - $81 million including $21 million which was equivalent to an electric rate refund to domestic customers as directed by the Commission.

NOTE 5 EARLY RETIREMENT INCENTIVE PROGRAM

In fiscal 1988 B.C. Hydro offered an early retirement incentive program to all employees meeting certain criteria of age and service. This program was offered to enhance B.C. Hydro's flexibility in meeting its changing operating environment.

The program was accepted by approximately 70% of eligible employees and has resulted in a reduction of 10% in B.C. Hydro's workforce without lay-offs or terminations. As a result employee compensation for the year includes amounts for lump sum payments to retirees, payments to the pension plan for waivers of pension reductions normally arising on early retirement and estimated future indexing of these pension waivers.

NOTE 6 FIXED ASSETS

As at March 31	1988						1987	
	Fixed Assets in Service			Unfinished Construction*	Total	Composite Depreciation Rate (%)	Total	Composite Depreciation Rate (%)
	Original Cost	Accumulated Depreciation	Net Book Value					
Electric Service								
Generation and storage	$ 4,985	$ 823	$ 4,162	$ 113	$ 4,275	1.57	$ 4,328	1.57
Transmission	2,283	465	1,818	9	1,827	2.41	1,873	2.40
Transformation	1,270	345	925	12	937	2.94	966	2.93
Distribution	1,432	473	959	17	976	3.81	931	3.84
Buildings, furniture and equipment	272	119	153	1	154	4.39	173	4.69
Total Electric Service	10,242	2,225	8,017	152	8,169	2.30	8,271	2.30
Mainland Gas Service	542	114	428	—	428	2.67	414	2.63
Victoria Gas Service	20	6	14	—	14	2.52	14	2.60
Rail Service	47	22	25	—	25	3.30	28	3.50
Service Vehicles	55	39	16	—	16	8.59	20	8.55
Research and Development	40	6	34	—	34	4.05	34	3.74
Common Properties	98	28	70	2	72	6.32	49	4.58
Total	$ 11,044	$ 2,440	$ 8,604	$ 154	$ 8,758		$ 8,830	

* Unfinished construction includes $92 million (1987 - $94 million) in deferred capital projects mainly comprised of costs relating to Peace Site C and Murphy-Keenleyside.

NOTE 7 LONG-TERM DEBT

As at March 31	1988					1987				
	U.S.	Weighted Average Coupon Rate	Cdn.	Weighted Average Coupon Rate	Total	U.S.	Weighted Average Coupon Rate	Cdn.	Weighted Average Coupon Rate	Total
Maturing in:										
1988	$ —		$ —		$ —	$ 351	9.5	$ 113	7.8	$ 464
1989	427	13.4	166	7.8	593	436	13.4	160	7.8	596
1990	294	14.0	290	10.3	584	303	13.9	299	10.3	602
1991	36	9.5	111	7.8	147	37	9.5	127	7.8	164
1992	127	6.8	249	7.1	376	134	5.8	265	6.9	399
1993	281	12.6	164	6.9	445	—		—		—
1—5 years	1,165	12.5	980	8.2	2,145	1,261	12.0	964	9.4	2,225
6-10 years	499	10.4	791	8.2	1,290	1,023	10.2	865	7.8	1,888
11-15 years	124	10.3	1,121	9.7	1,245	131	10.3	804	4.7	935
16-20 years	649	8.8	1,099	11.2	1,748	424	9.1	1,566	8.7	1,990
21-25 years	1,547	14.3	151	13.5	1,698	1,893	13.5	150	13.3	2,043
Total long-term debt	3,984 ($ 3,204 U.S.)	12.3	4,142	9.6	8,126	4,732 ($ 3,624 U.S.)	11.9	4,349	7.5	9,081
Less: Sinking funds	382 ($ 309 U.S.)		674		1,056	446 ($ 342 U.S.)		730		1,176
	3,602		3,468		7,070	4,286		3,619		7,905
Less: Payments due within one year	434		191		625	301		132		433
Net long-term debt	$ 3,168		$ 3,277		$ 6,445	$ 3,985		$ 3,487		$ 7,472
Issues Outstanding	21		124		145	33		135		168

GUARANTEE BY THE PROVINCE OF BRITISH COLUMBIA

B.C. Hydro's short-term borrowings and long-term debt outstanding is either held, or guaranteed as to principal, interest and premium, if any, by the Province.

SINKING FUNDS

Sinking funds are held by the Trustee, the Minister of Finance and Corporate Relations for the Province. Nearly all debt series have annual sinking fund requirements. Sinking fund income is recorded as a reduction of finance charges.

Sinking fund changes in the year comprised:	1988	1987	1986
Instalments	$ 102	$ 157	$ 95
Income reinvested	99	104	98
Surpluses recovered	(123)	—	—
	78	261	193
Withdrawals – debt repayment	(75)	(159)	(61)
– debt extinguishment	(100)	—	—
Foreign exchange adjustments	(23)	38	4
Total sinking fund changes	$ (120)	$ 140	$ 136

EXTINGUISHED DEBT

During the year B.C. Hydro purchased $82 million of Province of British Columbia securities with monies from sinking funds related to ten long-term debt issues having principal outstanding of $100 million. These securities were placed in an irrevocable trust with the Trustee and, as they provide sufficient funds to service and retire the debt, there is no requirement for future sinking fund instalments on these issues.

The accumulated sinking funds on these ten issues totalled $124 million at the time of this transaction and, consequently, the Trustee released the remaining $42 million in surplus funds, increasing working capital by that amount.

The ten long-term debt issues are considered extinguished for financial reporting purposes and, together with the related sinking funds, have been removed from B.C. Hydro's balance sheet. The gain arising from the difference between the $100 million of extinguished debt and the $82 million of securities purchased has been recorded as a reduction in finance charges (Note 9).

CASH REQUIREMENTS

Total maturity payments and sinking fund instalments on long-term debt outstanding at March 31, 1988, by year of payment are highlighted in the following table. U.S. cash requirements are shown in millions of U.S. dollars.

	Sinking Funds		Net Debt Maturities*		Total	
	U.S.	Cdn.	U.S.	Cdn.	U.S.	Cdn.
1989	$ 39	$ 48	$ 302	$ 143	$ 341	$ 191
1990	35	45	194	282	229	327
1991	35	44	28	91	63	135
1992	32	43	53	184	85	227
1993	28	42	135	112	163	154
1989 - 1993	169	222	712	812	881	1,034
1994 - 1998	118	191	338	345	456	536
1999 - 2003	108	141	—	149	108	290
2004 - 2008	85	23	—	239	85	262
2009 - 2013	47	3	191	22	238	25
	$ 527	$ 580	$ 1,241	$ 1,567	$ 1,768	$ 2,147

*Net debt maturities are determined after deducting sinking funds estimated to be available at maturity. This estimate is based on assumed earnings of 8.4% on existing sinking fund investments and future sinking fund instalments.

FOREIGN CURRENCY EXPOSURE - PRINCIPAL

At March 31, 1988 U.S. $315 million of debt due within two years was hedged with forward exchange contracts having a weighted average exchange rate of 76.7 cents U.S. per Canadian dollar and U.S. $309 million of debt was hedged by the purchase of U.S. dollar denominated securities for related sinking funds. As a result of these transactions, debt repayments, and the refinancing of U.S. debt to Canadian debt, B.C. Hydro has reduced its foreign currency exposure related to U.S. long-term debt by U.S. $702 million to U.S. $2,580 million. The March 31, 1988 foreign exchange rate used by B.C. Hydro was 80.83 U.S. cents per Canadian dollar.

REDEMPTION PROVISIONS

Certain B.C. Hydro debt held by the Canada Pension Plan Investment Fund and by the Minister of Finance and Corporate Relations of the Province contains provisions allowing holders to redeem the debt prior to maturity, in whole or in part, subject to certain restrictions. At March 31, 1988 this debt amounted to $752 million (1987 $836 million) net of sinking funds.

NOTE 8 SHORT-TERM BORROWINGS

Short-term borrowings are at prevailing money market rates and averaged 8.7% at March 31, 1988 (1987 - 8.0%).

NOTE 9 FINANCE CHARGES

Years ended March 31

	1988	1987	1986
Interest on long-term debt	$ 954	$ 988	$ 1,017
Interest on short-term borrowings	15	8	—
Amortization of foreign exchange gains and losses	10	11	54
Amortization of discount and issue costs	14	15	15
Other	2	1	4
	995	1,023	1,090
Less:			
Income from sinking fund investments	98	104	98
Income from temporary investments	1	6	15
Gain on extinguished debt	18	—	—
	117	110	113
	878	913	977
Less: Finance charges capitalized	3	7	51
	$ 875	$ 906	$ 926

The effective rate for finance charges capitalized to unfinished construction for fiscal 1988 was 9.2% (1987 - 10.6%; 1986 - 12.8%).

NOTE 10 PENSION PLANS

Employees of B.C. Hydro contribute to jointly-funded pension plans which specify the pensions payable upon retirement based on a percentage of earnings for designated years of service (contributory benefit-based plans). A portion of the contribution is to provide for annual cost-of-living increases (indexing).

Both the basic contribution and the indexing contribution are matched by B.C. Hydro. In addition, B.C. Hydro is contributing annual amounts to fund past service pension costs and accrued deficits which arose in prior years from plan amendments and changes in actuarial assumptions.

Annual actuarial valuations are obtained to determine the amount required in today's dollars to fund the pension benefits which have accrued to date (present value of accrued pension benefits). This is compared with the average market-related value of the pension fund assets to determine whether a net pension surplus or deficit exists. A preliminary actuarial report update dated April 25, 1988 estimated the present value of the accrued pension benefits to be $725 million as at December 31, 1987 and the pension plan assets available for these benefits at $740 million.

NOTE 11 COMPARATIVE FIGURES

Certain of the 1987 and 1986 comparative figures have been reclassified to conform with the current year's presentation.

NOTE 12 EXTRAORDINARY ITEMS

In fiscal 1987, expenditures of $29 million relating to the Vancouver Island gas pipeline project were written off, and property purchased for a new B.C. Hydro head office building was written down by $13 million to appraised value.

NOTE 13 SEGMENT INFORMATION

B.C. Hydro is engaged in the operation of three principal services: generation, transmission and distribution of electricity; distribution of gas; and provision of a rail service.

Most expenses are directly attributable to specific services and common expenses are allocated among the services. The allocation method used generally follows the full absorption approach whereby all costs are allocated amongst services. Export expenses include only direct costs, namely energy purchases, including transmission charges, and water rentals. This segment information does not consider the costs that may be incurred if each serivce were a separate legal entity. In this instance the costs incurred by each service would be different.

Identifiable assets are those assets that are used in each service's operations. Corporate assets are principally temporary investments and unamortized deferred charges.

Years ended March 31	Electric			Gas			Rail			Combined		
	1988	1987	1986	**1988**	1987	1986	**1988**	1987	1986	**1988**	1987	1986
Revenues	**$1,718**	$ 1,579	$ 1,647	**$ 370**	$ 385	$ 423	**$ 22**	$ 23	$ 24	**$2,110**	$ 1,987	$ 2,094
Expenses:												
Employee compensation	**195**	164	180	**41**	35	35	**11**	9	11	**247**	208	226
Materials and services	**56**	55	56	**11**	9	9	**4**	6	2	**71**	70	67
Energy purchases	**52**	29	48	**229**	251	280	**—**	—	—	**281**	280	328
Taxes	**296**	319	309	**9**	10	10	**1**	1	2	**306**	330	321
Depreciation	**218**	214	198	**17**	17	13	**2**	2	2	**237**	233	213
Total expenses	**817**	781	791	**307**	322	347	**18**	18	17	**1,142**	1,121	1,155
Operating income before finance charges	**901**	798	856	**63**	63	76	**4**	5	7	**968**	866	939
Finance charges	**827**	854	874	**46**	49	50	**2**	3	2	**875**	906	926
Operating income (loss)	**74**	(56)	(18)	**17**	14	26	**2**	2	5	**93**	(40)	13
Transfer to rate stabilization account	**(110)**	(56)	(85)	**—**	—	—	**—**	—	—	**(110)**	(56)	(85)
Transfer from rate stabilization account	**72**	163	81	**—**	—	—	**—**	—	—	**72**	163	81
Income (loss) before extraordinary items	**$ 36**	$ 51	$ (22)	**$ 17**	$ 14	$ 26	**$ 2**	$ 2	$ 5	**$ 55**	$ 67	$ 9
Identifiable assets	**$8,453**	$ 8,609	$ 8,686	**$ 520**	$ 496	$ 530	**$ 44**	$ 46	$ 47	**$9,017**	$ 9,151	$ 9,263
Corporate assets										**544**	651	1,194
Total assets										**$9,561**	$ 9,802	$10,457
Expenditures on fixed assets	**$ 163**	$ 157	$ 195	**$ 31**	$ 29	$ 28	**$ 1**	$ 1	$ 1	**$ 195**	$ 187	$ 224

The Electric Service derives its revenues from both domestic and export sales, the details of which are outlined below:

Years ended March 31	Domestic			Export			Total		
	1988	1987	1986	**1988**	1987	1986	**1988**	1987	1986
Revenues	**$1,534**	$ 1,486	$ 1,395	**$ 184**	$ 93	$ 252	**$1,718**	$ 1,579	$ 1,647
Expenses:									
Employee compensation	**195**	164	180	**—**	—	—	**195**	164	180
Materials and services	**56**	55	56	**—**	—	—	**56**	55	56
Energy purchases	**11**	13	15	**41**	16	33	**52**	29	48
Taxes	**263**	298	272	**33**	21	37	**296**	319	309
Depreciation	**218**	214	198	**—**	—	—	**218**	214	198
Total expenses	**743**	744	721	**74**	37	70	**817**	781	791
Operating income before finance charges	**791**	742	674	**110**	56	182	**901**	798	856
Finance charges	**827**	854	874	**—**	—	—	**827**	854	874
Operating income (loss)	**(36)**	(112)	(200)	**110**	56	182	**74**	(56)	(18)
Transfer to rate stabilization account	**—**	—	—	**(110)**	(56)	(85)	**(110)**	(56)	(85)
Transfer from rate stabilization account	**72**	163	81	**—**	—	—	**72**	163	81
Income (loss) before extraordinary items	**$ 36**	$ 51	$ (119)	**$ —**	$ —	$ 97	**$ 36**	$ 51	$ (22)

NOTE 14 SUBSEQUENT EVENT - SALE OF BUSINESSES

On October 23, 1987 the Province announced a plan to sell certain businesses of B.C. Hydro which included the Mainland and Victoria gas services, the rail service and the research and development division. B.C. Hydro issued Information Memoranda to prospective purchasers detailing the manner of disposal.

The net book value of identifiable assets and identifiable current liabilities of the businesses as at March 31, 1988 were:

	Mainland Gas	Victoria Gas	Rail	Research & Development	Total
Fixed assets	$ 543	$ 19	$ 47	$ 41	$ 650
Less: Accumulated depreciation	114	6	22	7	149
	429	13	25	34	501
Current assets	77	1	19	1	98
Less: Current liabilities	52	1	29	3	85
	25	—	(10)	(2)	13
Net assets	$ 454	$ 13	$ 15	$ 32	$ 514

The Mainland gas service and the rail service have been sold effective July and August 1988 for approximately $741 million and $32 million respectively. Negotiations are continuing for the sale of the other businesses. A portion of these sale proceeds, equivalent to the book value of the assets sold, will be used to retire debt held by B.C. Hydro while the remainder, after deducting the cost of the sales, pension liabilities created by the sale, and all other associated costs, will be distributed to the Province.

Segmented income statements which include the Mainland and Victoria gas services and the rail service are provided in Note 13. The total costs associated with the research and development division of $15 million in fiscal 1988 were allocated to other divisions. The segmented information is prepared on the basis of the existing cost allocation system at B.C. Hydro. The costs disclosed in the segments are therefore not necessarily indicative of cost savings to be realized by B.C. Hydro subsequent to the sale of these businesses.

Funds provided by these businesses totalled $6 million in fiscal 1988 comprised of $38 million from operating activities less net fixed asset expenditures of $32 million.

CORPORATE ORGANIZATION AND INFORMATION

as at March 31 1988

BOARD OF DIRECTORS

† Lawrence I. Bell

Samuel Belzberg •

† The Hon. Jack Davis

Carol M. Gran, M.L.A.

‡ Arthur L. Meyers ••

§ Charles E. Osterloh

§ ‡ J. Guy Rose

† William R. Sauder

§ Sandra D. Sutherland, Q.C.

§ ‡ John S. Waldie

‡ Patrick D. Walsh ••

•• Appointed 14 October 1987
• Resigned April 1988

MEMBERS OF COMMITTEES OF THE BOARD

† Executive

§ Audit

‡ Budget

OFFICERS

Lawrence I. Bell
Chairman

Christopher W.J. Boatman ••
Secretary

Tanis M. Stephenson
Assistant Secretary

Donna J. Lloyd
Associate Secretary

William W. Winnett
Comptroller

Raymond H. Hunt •
Chief Engineer

•• Appointed 18 April 1988
• Appointed 1 April 1988

VICE-PRESIDENTS

As at 31 March 1988

W.A. Best
Customer Services

C.W.J. Boatman
Corporate Affairs

A.E. Geikie
Human Resources

R.H. Hunt
System Development

F.J. Klassen
(Acting) Administration

J.P. Sheehan
Finance

P.D. Swoboda
Production

As at 1 April 1988

C.W.J. Boatman
Corporate Affairs

A.E. Geikie
Human Resources

R.H. Hunt
System Development

F.J. Klassen
Finance and Administration

J.P. Sheehan
Customer Services

P.D. Swoboda
Production

B.C. Hydro
PROUD OF OUR *Service*

Financial Review 1988

HIGHLIGHTS

for the years ended March 31

	1988	1987	1986
FINANCIAL (in millions)			
Revenues	**$ 2,110**	$ 1,987	$ 2,094
Net income	**$ 55**	$ 25	$ 9
Net additions to fixed assets in service	**$ 108**	$ 252	$ 518
Total assets	**$ 9,561**	$ 9,802	$10,457
Long-term debt	**$ 6,445**	$ 7,472	$ 8,209
OPERATING			
Electricity sold (kWh in millions)			
Domestic	**36 089**	34 417	32 857
Export	**9 481**	4 665	9 407
Gas sold (terajoules)	**94 380**	92 478	98 247
Freight carried (tonnes in thousands)	**1 868**	1 712	1 977
Average electric revenue per kWh			
Domestic (in cents)	**4.2**	4.2	4.2
Export (in cents)	**1.9**	2.0	2.7
Average gas revenue per gigajoule (in dollars)	**$ 3.91**	$ 4.14	$ 4.29

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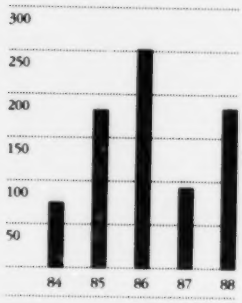
FINANCIAL OBJECTIVES

B.C. Hydro's Mission is supported through our financial objectives, which are:

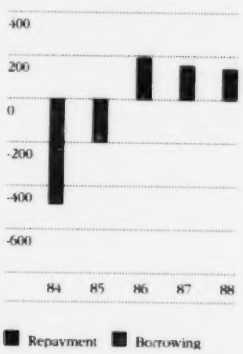
- ☐ To maximize our revenue through the marketing of secondary power.
- ☐ To reduce our debt and minimize external funding.
- ☐ To reach and maintain an interest coverage ratio of 1.3:1 by 1991 in order to achieve a debt equity ratio of 80:20.

Revenues From Export Sales
(in millions of dollars)



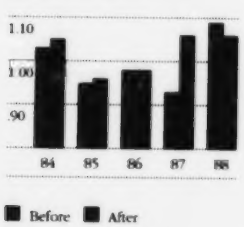
In the 1987/88 fiscal year, our export sales volume doubled, with revenues increasing by 98 percent for a total of $184 million.

Net Funding Activities
(in millions of dollars)



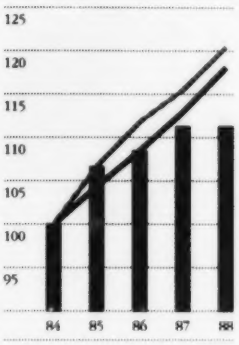
We are continuing to reduce our debts through repayments and have not received net external funding for the last three fiscal years.

Interest Coverage Ratio Before & After Rate Stabilization
(Electric Service)

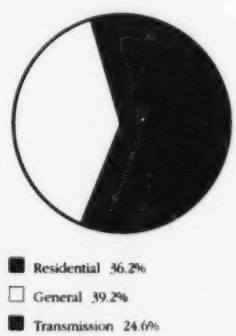


Although our interest coverage ratio of 1.09:1 was below the desired level, it was the highest ratio achieved since 1984.

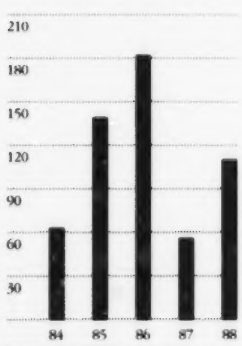
Residential Electricity Price
(price index 1984 = 100)



Electricity Sold By Customer Class
(1988 Revenues)



Income From Export Sales
(in millions of dollars)



ELECTRIC SERVICE REVENUES

Our Customers

The past fiscal year has seen the largest annual increase in B.C. Hydro electric customers since 1982, with 23 284 customers added to the system. Of these, 20 000 were new residential accounts and 3000 were commercial and industrial accounts. We now serve more than 1.2 million customers within British Columbia.

During this substantial growth, we maintained our electric rates at the same levels charged in 1986, which are among the lowest set by Canadian utilities. In fact, our electric rates have only increased three and a half percent since 1984, an average of less than one percent per year. This compares with an inflation increase of four percent per year in the same time frame.

Residential Customers

Since 1984, our residential load has grown an average of two percent a year, and now represents 28 percent of our total domestic load. Our residential revenues also increased by two percent in the past year and five percent over the past five years.

Industrial Transmission Customers

British Columbia's economic recovery is reflected in the increased service we provided our large industrial customers, including the pulp and paper, forestry, mining and manufacturing industries.

In the past five years, our industrial load has increased 45 percent, with electric sales increasing seven percent in the last fiscal year. Our total domestic volumes are up 830 GW h over 1986/87, which is equivalent to the amount of power used by Vancouver Island in an average month.

Our large industrial accounts now include 66 companies with 80 accounts worth $374 million in fiscal 1988, and represent 37 percent of the total domestic load.

General and Commercial Customers

The growth of our residential and industrial accounts is also shared by our general and commercial accounts, including small and large businesses, the service industries, municipalities and government bodies.

General and commercial accounts increased by 2771 in the past year, with revenues increasing by 4.3 percent or $23 million. These accounts now represent 35 percent of our total domestic load

Electricity Sold By Customer Class
(1988 Volumes)

Exports

Exporting British Columbia's secondary hydroelectric power on an "as available" basis is an important source of revenue for B.C. Hydro.

The power we export is actually one of two kinds of power we generate. Firm power is the power available from our system, even in the years of the lowest water levels, and is committed to meet our domestic demands.

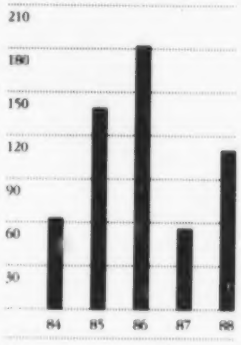
The power we export is secondary power, and is only available when the province has a year of good precipitation. Because secondary power is considered interruptible, the price, quantity and duration is determined daily on the basis of demand and supply available.

Export sales are also affected by external influences, including water levels in the U.S. Pacific Northwest, the price of competing fuels and transmission line capacity to send it to the customer.

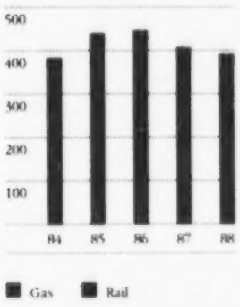
During the 1987/88 fiscal year, low water conditions in the Pacific Northwest increased the power demands. We also launched a brokerage sales program to export energy purchased from suppliers such as TransAlta in Alberta and Alcan Aluminium in B.C., which provided us with income of $14 million. In total, export sales volumes doubled over the previous year to 9481 million KWh, with sales revenues showing an increase of $91 million, a dramatic 98 percent, for a total of $184 million.

Despite the uncertainty of this interruptible power, we are a significant exporter and in the 1987/88 fiscal year sold about 16 percent of the total electric energy exported by Canada.

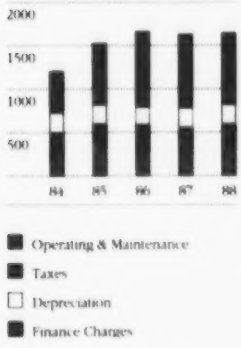
Income From Export Sales
(in millions of dollars)



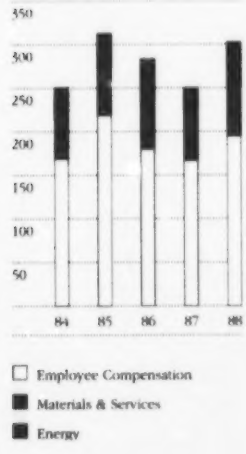
Gas and Rail Revenues
(in millions of dollars)



Expenses
(in millions of dollars)



Operating and Maintenance Costs
(in millions of dollars)



GAS AND RAIL SERVICE REVENUES

Although our gas service increased by 12 000 customers over 1987, annual temperatures almost 10 percent warmer than average led to lower consumption and restricted the volume growth to two percent. Lower gas prices led to a decline in revenues of four percent or $15 million to $370 million.

Interruptible sales to the large industrial and institutional market increased eight percent by volume from 19 488 terajoules to 21 089 terajoules. Lower gas prices, however, resulted in a decrease in revenue of $7 million or 14 percent.

A four percent increase in rail freight carloads, from 43 919 to 45 871, resulted in revenue from freight operations increasing by $1 million to $19 million. This increase was due to the higher volumes of automobiles transported during the year.

ELECTRIC SERVICE EXPENSES

Expense Trends

Expenses for the Electric service, excluding finance charges, have risen by an average of three percent per annum over the past five years, with most of these due to increases in non-elective expenses such as depreciation, taxes and energy.

However, finance charges increased significantly over the same time frame, from $479 million to $827 million. These increases reflect the completion of major capital projects of the early 1980s, the introduction into service of the Revelstoke and Cheekye-Dunsmuir facilities and changes in U.S. currency exchange rates.

Operating and Maintenance

Operating and maintenance costs for the Electric service have increased $52 million over the past five years. Of that increase, 70 percent is due to the cost of purchasing and transmitting electricity for export sales.

During the same time, significant staff reductions resulted from our shift from a capital development to a low cost operating company. Excluding Gas and Rail, the number of employees decreased 24 percent, from 7063 in 1984 to 5378 in 1988. Employee compensation, the largest

component of the Electric service operating and maintenance costs, reflects this shift and these expenses have not increased over the period 1984 to 1987 except for severance payments which were most significant in 1985, at $25 million. The 1988 figure for compensation, charged to Electric operations, excluding an abnormal expense of $26 million for an early retirement incentive scheme, totalled $169 million, the same as 1984.

Taxes

In 1987, taxes rose from $251 million in 1984 to $319 million, the result of water rental increases due to growth in annual electricity sales. In 1988, lower rates for grants and taxes, combined with reductions in the assessed value of utility property, accounted for a decrease of $23 million from the previous year.

Depreciation

The 1984 depreciation cost of $224 million consists of a basic cost of $177 million plus a write-off of deferred projects of $47 million, a cost unique to that year. Increases in the following years' results derive from the completion of the Revelstoke generating facility and the Cheekye-Dunsmuir transmission lines.

Finance Charges

Interest on debt borrowed to finance new capital projects is capitalized during the construction years, but once the projects are placed in service, this interest is charged to operating expenses. In 1984 and 1985, the Revelstoke and Cheekye-Dunsmuir projects were placed in service, causing significant increases in finance charges. These increases were also affected by unfavourable changes in U.S. currency exchange rates.

Expenses Stabilize for Fiscal 1988

Electric operating expenses, excluding finance charges, were $817 million, up $36 million from the previous year. Included in this total was $74 million in costs related to export sales compared to $37 million in 1987. Expenses for domestic operations alone remained constant at $743 million. Operating expenses were impacted by an employee compensation increase due to salary and wage increases and an Early Retirement Incentive Program which offset a reduction in taxes on utility properties arising from lower assessed values. Under the Early Retirement Program, Electric service staff levels were reduced by over 500, with some positions restaffed, others eliminated through reorganization and a portion contracted out for an estimated annual net saving of over $8 million.

Finance Charges 1988
(in millions of dollars)

- U.S. Interest $567
- Canadian Interest $428
- Sinking Fund and Other Income $120

Finance Charges Drop

B.C. Hydro's finance charges were $875 million, down 3.4 percent or $31 million from 1987. Of this total, $827 million or 95 percent was charged to the Electric service.

A reduction of $27 million related to a decrease in interest expense due to an increase in the value of the Canadian dollar and the reduction in total debt.

An $18 million gain contributed to the reduction in finance charges by the extinguishment of $100 million of debt that was effectively repaid by the purchase of securities for a cost of $82 million. The $82 million was put into trust to cover principal and interest payments on the debt. This transaction also freed up $42 million in surplus sinking funds for working capital.

These reductions in finance charges were partially offset by a drop in income from sinking funds and temporary investments of $11 million, primarily due to lower interest rates and the change in foreign exchange rates.

Total interest on debt was $995 million in fiscal 1988, a continuation of the reduction in gross interest charges which was first evident in 1987. Of this total, $428 million or 43 percent was in Canadian dollars while the balance was on account of U.S. debt.

Total finance charges were reduced by sinking fund income and other items equivalent to 12 percent or $120 million.

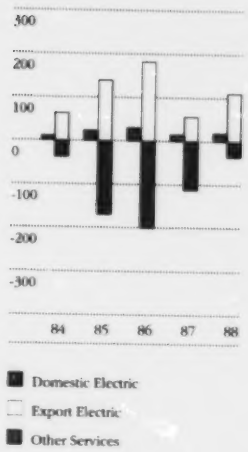
OPERATING INCOME

In order for B.C. Hydro to maintain financial viability and meet both our mandate and the requirements of the B.C. Utilities Commission, it is necessary to achieve a positive operating income on a consistent basis. Although a positive income for any one year is not considered critical, the ability to recover all costs over a period of time is vital for financial responsibility.

We have achieved a positive income in all except one of the past five years. This was made possible through the income from export sales which has produced $550 million over this period, and enabled us to continue to incur losses on domestic electricity sales which have not produced a positive income in any of the past five years.

The loss from domestic operations has, however, reduced significantly in the last two years and has been achieved without any increase in rates to domestic customers since April 1, 1986. This is the result of the efforts made to contain operating costs.

Operating Income by Source
(in millions of dollars)



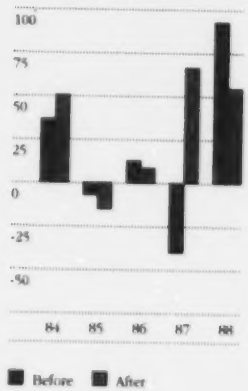
RATE STABILIZATION ACCOUNT

Since 1982, the British Columbia Utilities Commission has ordered B.C. Hydro to operate a Rate Stabilization Account, under the direction of the Commission, into which the income from export sales is placed.

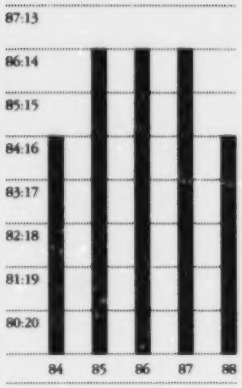
The objective is to smooth the achievement of our required financial directives and any changes in the rate structure to domestic customers.

The impact of Rate Stabilization upon operating income has generally been to reduce income in years of high export sales and increase income in years of low export sales. However, only in 1982 — the year of establishment — and in 1987 has there been a significant change to net income arising from the use of the Rate Stabilization Account.

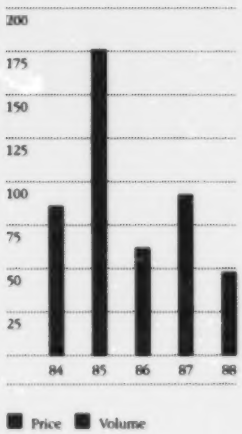
Rate Stabilization Impact
Comparison of Operating Income Before & After Rate Stabilization Adjustment



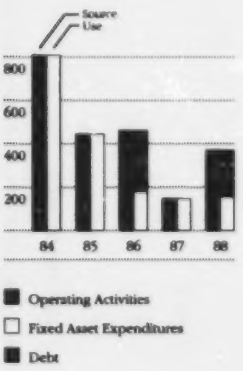
Debt to Equity Ratio



Components of Revenue Increase
(in millions of dollars)



Source & Use of Funds
(in millions of dollars)



FINANCIAL RATIOS

Interest Coverage Ratio

B.C. Hydro has maintained the required interest coverage ratio for its gas service since 1984 except in 1987 when it fell below the required ratio due to warmer than normal weather.

We have not yet achieved the 1.3:1 interest coverage ratio for electric service, with ratios achieved varying between 0.95:1 to 1.20:1. We are moving towards the required ratio by reducing finance charges and other expenses rather than increasing electricity rates. As debt reduces, the interest coverage ratio will improve.

The 1988 interest coverage ratio of 1.09:1 before the rate stabilization account adjustment, was significantly below the desired level but still the highest since 1984. To achieve a ratio of 1.3:1 our 1988 income would have had to improve by $174 million, representing a rate increase for the year of approximately 11 percent.

Debt to Equity Ratio

The debt to equity ratio increased in 1984 and 1985 as debt was issued to finance capital expansion. For the first time in 1988, the ratio has moved towards the desired 80:20 level through a combination of debt repayment and an improved operating income. The proceeds from the sale of our privatized services will assist in the ratio improvement.

FINANCING

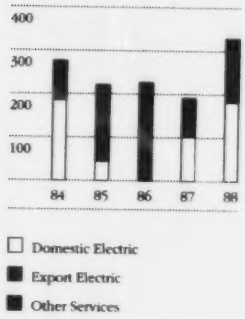
B.C. Hydro, like other public utilities, is capital intensive, with a large investment in its fixed assets compared to the revenue produced by these assets. To finance the construction of these assets, we must borrow funds. When these assets are placed in service, the revenue earned from resulting energy sales is used to pay the interest and repay the principal on the borrowed funds. To the extent that we have retained earnings, we are able to finance construction without borrowing.

The large debt accumulated during the time of extensive capital construction programs in the early 1980's is now gradually being reduced, although the effect of this pattern is partially hidden due to load growth and inflation. Even at low levels, these two factors mean that asset

additions cost more to build each year. Thus debt repayments in any year are the net result of funds borrowed for new assets, less debt repayments for older asset borrowings in previous years. As the new assets can cost significantly more money, the net debt position does not decline as rapidly as it would otherwise.

For the last three years, we have been in a position of fully funding capital investment from operating funds after taking into account changes in working capital items, and before the reduction in net long-term debt.

Funds from Operations by Type
(in millions of dollars)

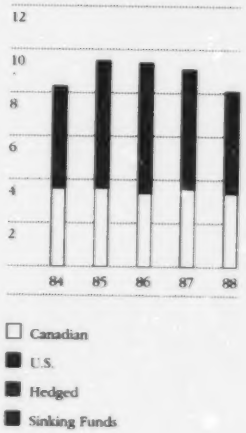


Funds from Operations

Funds from operations comprise net income for the year after adjustment for non-cash items including depreciation of fixed assets and changes in working capital components, such as accounts receivable and payable, which rise and fall over the course of the year.

Since 1984, we have had a positive cash flow of $1,250 million before changes in working capital components which increased the positive cash flow to $1,400 million. Of this, $550 million was from export sales, without which our debt position would have increased by the same amount resulting in significantly higher finance charges each year.

Long-Term Debt
(in billions of dollars)

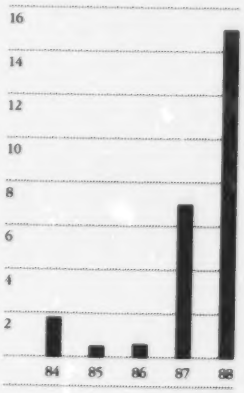


Debt Outstanding

After reaching a peak of $8.3 billion in 1986, net long-term debt has been reduced, with principal of $516 million repaid in 1987 and $745 million in 1988. Total debt, net of sinking funds and temporary investments, was lower by $412 million in 1988 for a reduction of $679 million in the last two years. Our net debt outstanding as of March 31, 1988 was $7.6 billion.

Long-term debt is recorded net of sinking funds which totalled $1.1 billion at March 31, 1988. Of this amount, U.S. $309 million acts as an effective hedge against this amount of U.S. debt.

Percentage of Debt in Short-Term Borrowing



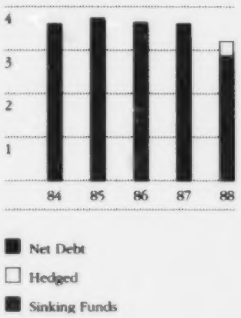
Debt Composition Changes

During the past year we implemented a plan to shift a portion of fixed-rate long-term debt to short-term including floating rate. As a result 15 percent of total debt was short-term at March 31, 1988 compared with

seven percent in 1987, giving us the advantage of lower borrowing costs available in short-term money markets.

We also entered into interest rate conversion agreements or swaps requiring the payment of variable interest in return for the receipt of interest at fixed rates. Savings from these swaps were approximately half a million dollars in the 1988 fiscal year.

Debt in U.S. Dollars
(in billions of U.S.dollars)



Reduced Currency Exposure

Historically, B.C. Hydro has borrowed a significant portion of its debt in U.S. dollars, and, in 1985, had borrowed U.S. $3,742 million, or 53 percent of total debt. Since then we have sought to reduce both the debt and our exposure to fluctuations in U.S. dollar values. By March 31, 1988, our U.S. debt stood at U.S. $3,204 million or 46 percent of total debt, a reduction of U.S. $538 million.

Additionally, U.S. $624 million of the debt has been hedged by sinking funds or forward exchange contracts, thereby eliminating exposure to exchange rate changes. As a result, 19 percent of our U.S. debt was effectively hedged at March 31, 1988 compared with 9 percent in the prior year.

Debt Management Strategy

During the year, we carried out a study in conjunction with the Ministry of Finance and Corporate Relations to determine if liabilities, particularly debt and offsetting sinking funds, could be reduced to a more risk free position. This resulted in revised objectives and financing strategies which emphasize the reduction of interest and foreign currency risk and the improved management of sinking funds.

The increased hedging of U.S. debt, changes in debt composition and swap agreements highlight the importance we are placing on reducing risk. To further provide security for long-term debt, short-term assets currently in sinking funds will be converted to longer term assets to lock in market yields to maturity.

FINANCIAL STATISTICS

years ended March 31

	1988	1987	1986
		(in millions)	
SOURCES OF REVENUE			
Electric	$ 1,718	$ 1,579	$ 1,647
Gas	370	385	423
Rail	22	23	24
	$ 2,110	$ 1,987	$ 2,094
DISPOSITION OF REVENUE			
Employee compensation	$ 247	$ 208	$ 226
Materials and services	71	70	67
Energy purchases	281	280	328
Taxes	306	330	321
Depreciation	237	233	213
Finance charges	875	906	926
	2,017	2,027	2,081
Adjustment for rate stabilization	38	(107)	4
	2,055	1,920	2,085
Loss on passenger transportation operation	—	—	—
Extraordinary items	—	42	—
Employed in the business	55	25	9
	$ 2,110	$ 1,987	$ 2,094
FIXED ASSETS			
In service, at cost	$ 11,044	$ 10,936	$ 10,749
Accumulated depreciation	2,440	2,228	2,037
	$ 8,604	$ 8,708	$ 8,712
Fixed asset expenditures	$ 195	$ 187	$ 224
Contributions in aid of construction	30	27	34
Net fixed asset expenditures	$ 165	$ 160	$ 190
LONG-TERM DEBT	$ 6,445	$ 7,472	$ 8,209
EMPLOYEES AT YEAR-END*			
Regular	5 871	5 998	6 172
Temporary	548	395	336
	6 419	6 393	6 508

**1978 to 1980 includes passenger transportation employees*

FINANCIAL STATISTICS

years ended March 31

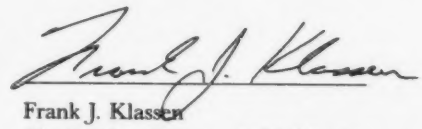
	1985	1984	1983	1982	1981	1980	1979	1978
	$ 1,513	$ 1,230	$ 1,174	$ 1,130	$ 887	$ 720	$ 672	$ 612
	415	361	332	316	185	173	170	136
	25	22	22	27	25	23	21	18
	$ 1,953	$ 1,613	$ 1,528	$ 1,473	$ 1,097	$ 916	$ 863	$ 766
	$ 259	$ 214	$ 212	$ 197	$ 166	$ 144	$ 132	$ 126
	66	64	65	72	50	45	44	44
	323	276	262	250	142	131	121	95
	299	262	254	183	90	71	66	53
	229	240	179	153	136	119	107	97
	784	520	479	408	400	310	283	262
	1,960	1,576	1,451	1,263	984	820	753	677
	8	(14)	19	90	—	—	—	—
	1,968	1,562	1,470	1,353	984	820	753	677
	—	—	—	—	—	56	61	61
	—	—	77	—	—	38	—	—
	(15)	51	(19)	120	113	2	49	28
	$ 1,953	$ 1,613	$ 1,528	$ 1,473	$ 1,097	$ 916	$ 863	$ 766
	$ 10,231	$ 8,046	$ 7,566	$ 7,192	$ 6,691	$ 5,991	$ 5,339	$ 4,921
	1,824	1,660	1,499	1,345	1,199	1,063	980	878
	$ 8,407	$ 6,386	$ 6,067	$ 5,847	$ 5,492	$ 4,928	$ 4,359	$ 4,043
	$ 484	$ 820	$ 1,037	$ 1,053	$ 740	$ 755	$ 722	$ 641
	31	30	65	37	32	25	19	22
	$ 453	$ 790	$ 972	$ 1,016	$ 708	$ 730	$ 703	$ 619
	$ 8,387	$ 7,203	$ 6,833	$ 6,425	$ 5,324	$ 5,176	$ 4,739	$ 4,337
	6 764	7 739	8 212	8 610	8 441	11 330	11 618	11 611
	385	466	455	1 123	1 099	865	932	946
	7 149	8 205	8 667	9 733	9 540	12 195	12 550	12 557

MANAGEMENT REPORT

The financial statements of B.C. Hydro have been prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied and appropriate in the circumstances, after taking into account the changes described in Note 2 in the financial statements. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to the financial statements. The financial statements have also been reviewed by the Audit Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Management depends upon a system of internal controls in order to provide reasonable assurance, on a cost-effective basis, that financial information is reliable and accurate. This system includes formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. This system is monitored through the performance of a comprehensive internal audit program. Our external auditors also independently perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements. The Audit Committee, which is comprised of directors who are not employees, meets regularly with representatives of the external auditors, the internal auditors and management in order to satisfy themselves that B.C. Hydro's system of internal controls is functioning properly.

L.I. (Larry) Bell
Chairman



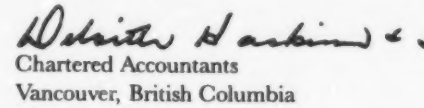
Frank J. Klassen
Vice-President, Finance and Administration

REPORT OF THE AUDITORS

The Lieutenant-Governor in Council, Province of British Columbia:

We have examined the balance sheets of British Columbia Hydro and Power Authority as at March 31, 1988 and 1987 and the statements of income and earnings employed in the business and of changes in financial position for each of the years in the two year period ended March 31, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The statements of income and earnings employed in the business and of changes in financial position of British Columbia Hydro and Power Authority for the year ended March 31, 1986 were examined by other auditors.

In our opinion, the financial statements examined by us present fairly the financial position of British Columbia Hydro and Power Authority as at March 31, 1988 and 1987 and the results of its operations and the changes in its financial position for each of the years in the two year period ended March 31, 1988 in accordance with generally accepted accounting principles applied, except for the change in 1988, with which we concur, in the method of accounting for pension costs and obligations and after giving retroactive effect to the change in 1987, with which we concur, in the method of accounting for unrealized foreign exchange gains and losses on sinking funds, as explained in Note 2 to the financial statements, on a consistent basis.



Chartered Accountants
Vancouver, British Columbia
May 20, 1988
(except as to Note 14 which is as of September 30, 1988)

STATEMENT OF INCOME AND EARNINGS EMPLOYED IN THE BUSINESS

years ended March 31

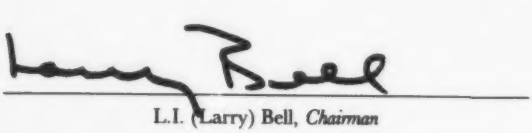
	1988	1987	1986
		(in millions)	
REVENUES			
Electric - Domestic (Note 3)			
Residential	$ 548	$ 539	$ 517
General	547	524	498
Transmission	373	348	322
Other	66	75	58
	1,534	1,486	1,395
Electric - Export	184	93	252
	1,718	1,579	1,647
Gas (Note 3)	370	385	423
Rail	22	23	24
	2,110	1,987	2,094
EXPENSES			
Employee compensation (Note 5)	$ 247	$ 208	$ 226
Materials and services	71	70	67
Energy purchases	281	280	328
Taxes	306	330	321
Depreciation	237	233	213
	1,142	1,121	1,155
OPERATING INCOME BEFORE FINANCE CHARGES	968	866	939
Finance Charges (Note 9)	875	906	926
OPERATING INCOME (LOSS)	93	(40)	13
Net transfer (to) from rate stabilization account (Note 4)	(38)	107	(4)
INCOME BEFORE EXTRAORDINARY ITEMS	55	67	9
Extraordinary items (Note 12)	—	(42)	—
NET INCOME	55	25	9
EARNINGS EMPLOYED IN THE BUSINESS			
At beginning of year	540	515	506
At end of year	$ 595	$ 540	$ 515

BALANCE SHEET

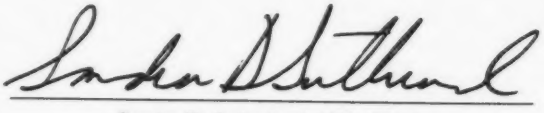
as at March 31

	1988	1987
	(in millions)	
FIXED ASSETS (Note 6)		
Fixed assets in service	$ 11,044	$ 10,936
Less – Accumulated depreciation	2,440	2,228
	8,604	8,708
Unfinished construction	154	122
	8,758	8,830
CURRENT ASSETS		
Temporary investments	97	24
Accounts receivable and unbilled revenues	314	334
Materials and supplies	42	37
Prepaid expenses	25	49
Property held for sale	35	34
	513	478
UNAMORTIZED DEFERRED CHARGES		
Foreign currency translation	238	428
Discount and issue costs	52	66
	290	494
	$ 9,561	$ 9,802
LONG-TERM LIABILITIES		
Long-term debt (Note 7)	$ 6,445	$ 7,472
Deferred liabilities	25	26
	6,470	7,498
CURRENT LIABILITIES		
Short-term borrowings (Note 8)	612	116
Accounts payable	214	209
Accrued interest	303	323
Long-term debt payments due within one year (Note 7)	625	433
	1,754	1,081
UNAMORTIZED DEFERRED CREDITS		
Rate stabilization account (Note 4)	38	—
Deferred revenue	21	6
Contributions arising from Columbia River Treaty	341	350
Contributions in aid of construction	342	327
	742	683
EARNINGS EMPLOYED IN THE BUSINESS	595	540
	$ 9,561	$ 9,802

APPROVED ON BEHALF OF THE BOARD



L.I. (Larry) Bell, *Chairman*



Sandra D. Sutherland, Q.C., *Director*

STATEMENT OF CHANGES IN FINANCIAL POSITION

years ended March 31

	1988	1987	1986
		(in millions)	
OPERATING ACTIVITIES			
Operating income (loss)	$ 93	$ (40)	$ 13
Depreciation	237	233	213
Amortization of deferred charges	24	26	69
Working capital changes	24	(107)	153
Other	(5)	(8)	14
Funds provided by operating activities	373	104	462
FINANCING ACTIVITIES			
Net short-term borrowings	496	116	—
Long-term debt issues	9	344	87
Long-term debt retirements, net of related sinking funds	(570)	(357)	(87)
Other sinking fund changes	(78)	(261)	(193)
Funds used for financing activities	(143)	(158)	(193)
INVESTING ACTIVITIES			
Fixed asset expenditures	(195)	(187)	(224)
Contributions in aid of construction	30	27	34
Net proceeds from fixed asset retirements	8	12	9
Funds used for investing activities	(157)	(148)	(181)
INCREASE (DECREASE) IN FUNDS	73	(202)	88
FUNDS AT BEGINNING OF YEAR	24	226	138
FUNDS AT END OF YEAR	$ 97	$ 24	$ 226

Funds consist of temporary investments.

NOTES TO FINANCIAL STATEMENTS

(tabular amounts expressed in millions of dollars unless otherwise stated)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

British Columbia Hydro and Power Authority ("B.C. Hydro") is a Crown corporation of the Province of British Columbia (the "Province"). B.C. Hydro is regulated by the British Columbia Utilities Commission (the "Commission"). The accounting policies of the corporation conform to accounting principles generally accepted in Canada. A description of significant accounting policies follows. See Note 4 for an explanation of the rate stabilization account.

REVENUES

Domestic revenues represent sales of energy to customers within the Province and sales of firm energy to those outside the province (mainly Seattle and Point Roberts, Washington State and Hyder, Alaska) with whom B.C. Hydro has long-term commitments.

Export revenues are derived from energy sales made outside the Province other than those classified as domestic. These sales are surplus to B.C. Hydro's domestic energy requirements.

Customers are billed on a cyclical basis for energy deliveries with unbilled deliveries being accrued and included in revenues.

FIXED ASSETS

Fixed assets in service consist principally of land, water rights, storage dams, plant for the generation, transmission and distribution of electricity, the distribution of gas, and freight railway and rolling stock, and include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty.

Fixed assets are carried at cost which includes materials, direct labour and appropriate portions of engineering, administration and finance charges.

Capital development studies and projects which are abandoned or subject to indefinite deferral are written off. Capital development studies for which work is deferred for more than one year are amortized on a straight-line basis at 20% per annum during the deferral period or until fully amortized. Capital projects which are deferred, but for which there is a reasonable probability of proceeding, have a provision made for any reduction in the value of project costs.

DEPRECIATION

Depreciation is provided on all depreciable assets in service as at the beginning of each year based on the average service life of assets and is computed using the straight-line method.

FINANCE CHARGES CAPITALIZED

B.C. Hydro capitalizes finance charges at rates equivalent to the cost of borrowing those funds expended on construction projects during each year of construction.

TEMPORARY INVESTMENTS

Temporary investments are valued at the lower of cost and market.

MATERIALS AND SUPPLIES

Materials and supplies are valued at average cost, less provisions for declines in value.

PROPERTY HELD FOR SALE

Property held for sale is valued at the lower of cost and net realizable value.

FOREIGN CURRENCY TRANSLATION

Long-term debt, sinking funds, current assets and current liabilities denominated in a foreign currency are translated into Canadian currency at the rate of exchange prevailing at the balance sheet date. U.S. currency liabilities which are hedged are converted at the rate established by the terms of the hedge instrument.

Unrealized gains and losses arising from the translation of long-term debt and sinking funds are deferred and amortized over the remaining term of the debt. The annual amortization is determined by dividing the unamortized balance of the gains and losses by the sum of the remaining years, except that for the last four years the unamortized balance is written off on a straight-line basis. Foreign exchange gains and losses on current assets and current liabilities are included in income.

DISCOUNT AND ISSUE COSTS

Discount and issue costs on long-term debt are amortized on a straight-line basis over the term of the respective debt.

DEFERRED REVENUE

Deferred revenue consists primarily of amounts received under the Skagit River Agreements. These amounts are deferred and included in income on an annuity basis over the energy delivery period ending in fiscal 2066.

CONTRIBUTIONS

Contributions in aid of construction are amounts received from certain customers to contribute toward the extension of services. These amounts are amortized over the estimated service lives of the related assets, and the annual amortization is equal to the corresponding provision for depreciation.

Contributions arising from the Columbia River Treaty are amortized over the period ending in fiscal 2025, the minimum term of the Treaty, and the annual amortization is equal to the corresponding provision for depreciation of the related assets.

Contributions received in respect of unfinished construction are included with deferred liabilities until the assets are placed in service.

PENSION COSTS

Pension expense comprises the actuarial costs of pension benefits for employee services for the year in accordance with the terms of the pension plan agreement and amortization of the initial net pension surplus and the cost of past service benefits and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members. Pension fund investments are valued at a five-year average of market value.

NOTE 2 CHANGES IN ACCOUNTING POLICIES

1988

Effective April 1, 1987, B.C. Hydro adopted, on a prospective basis, the recommendations of the Canadian Institute of Chartered Accountants regarding pension costs and obligations. The effect of this change on net income for fiscal 1988 was not material.

1987

Effective April 1, 1986, B.C. Hydro retroactively changed its method of accounting for unrealized foreign exchange gains and losses on sinking funds to deferral and amortization from immediate recognition. Amounts for fiscal 1986 were restated accordingly.

NOTE 3 RATE ADJUSTMENTS

ELECTRIC-DOMESTIC

The Commission approved a rate increase of 1.875% effective June 13, 1985 and a further increase of 1.875% effective April 1, 1986. There have not been any rate increases since that time.

MAINLAND GAS

For each of the past three fiscal years, changes in the cost of gas purchased for resale have resulted in flow-through changes in gas rates for customers. Effective November 1, 1986, the Commission approved a 3.6% interim gas rate increase to compensate B.C. Hydro for increases in expenses other than purchased gas. Revenue derived from this increase was $20 million to March 31, 1988 (of which $7 million related to fiscal 1987) and is subject to refund with interest, in whole or in part, if so ordered by the Commission.

Percentage increases (decreases) in gas rates over the past three fiscal years are noted below:

EFFECTIVE DATE	Firm Customers	Interruptible Customers
	%	%
1988 - January 14, 1988	3.9	2.1
December 7, 1987	(1.1)	1.5
May 1, 1987	(2.5)	(1.7)
1987 - January 15, 1987	0.9	0.5
November 1, 1986	(5.0)	(27.8)
1986 - August 1, 1985	3.6	0.6
June 1, 1985	0.9	(4.3)

NOTE 4 RATE STABILIZATION ACCOUNT

The Commission directed B.C. Hydro to create as of March 31, 1982, an account to be known as the rate stabilization account derived from export sales of surplus electric energy (exclusive of sales made under certain export contracts) less associated direct expenses. Directives over the past three years have resulted in the following transfers to and from the account:

Years ended March 31	1988	1987	1986
Balance at beginning of year	$ —	$ 107	$ 103
Transfer from income to the account	110	56	85
Transfer from the account to income	(72)	(163)	(81)
Net transfer to (from) the account	38	(107)	4
Balance at end of year	$ 38	$ —	$ 107

TRANSFERS TO THE ACCOUNT

For fiscal 1988 and 1987 all revenues from export sales, less direct expenses, were transferred to the account. For fiscal 1986, only revenues from export sales in excess of $130 million, less direct expenses, were transferred to the account.

TRANSFERS FROM THE ACCOUNT

For fiscal 1988, 1987 and 1986, transfers from the account to income were limited to:

1988 – revenues from the first $116 million of export sales, less direct expenses.

1987 – the amount required to reduce the account balance to nil.

1986 – $81 million including $21 million which was equivalent to an electric rate refund to domestic customers as directed by the Commission.

NOTE 5 EARLY RETIREMENT INCENTIVE PROGRAM

In fiscal 1988 B.C. Hydro offered an early retirement incentive program to all employees meeting certain criteria of age and service. This program was offered to enhance B.C. Hydro's flexibility in meeting its changing operating environment.

The program was accepted by approximately 70% of eligible employees and has resulted in a reduction of 10% in B.C. Hydro's workforce without lay-offs or terminations. As a result employee compensation for the year includes amounts for lump sum payments to retirees, payments to the pension plan for waivers of pension reductions normally arising on early retirement and estimated future indexing of these pension waivers.

NOTE 6 FIXED ASSETS

As at March 31	1988						1987	
	Fixed Assets in Service			Unfinished Construction*	Total	Composite Depreciation Rate (%)	Total	Composite Depreciation Rate (%)
	Original Cost	Accumulated Depreciation	Net Book Value					
Electric Service								
Generation and storage	$ 4,985	$ 823	$ 4,162	$ 113	$ 4,275	1.57	$ 4,328	1.57
Transmission	2,283	465	1,818	9	1,827	2.41	1,873	2.40
Transformation	1,270	345	925	12	937	2.94	966	2.93
Distribution	1,432	473	959	17	976	3.81	931	3.84
Buildings, furniture and equipment	272	119	153	1	154	4.39	173	4.69
Total Electric Service	10,242	2,225	8,017	152	8,169	2.30	8,271	2.30
Mainland Gas Service	542	114	428	—	428	2.67	414	2.63
Victoria Gas Service	20	6	14	—	14	2.52	14	2.60
Rail Service	47	22	25	—	25	3.30	28	3.50
Service Vehicles	55	39	16	—	16	8.59	20	8.55
Research and Development	40	6	34	—	34	4.05	34	3.74
Common Properties	98	28	70	2	72	6.32	49	4.58
Total	$ 11,044	$ 2,440	$ 8,604	$ 154	$ 8,758		$ 8,830	

* Unfinished construction includes $92 million (1987 – $94 million) in deferred capital projects mainly comprised of costs relating to Peace Site C and Murphy-Keenleyside.

NOTE 7 LONG-TERM DEBT

As at March 31	1988					1987				
	U.S.	Weighted Average Coupon Rate	Cdn.	Weighted Average Coupon Rate	Total	U.S.	Weighted Average Coupon Rate	Cdn.	Weighted Average Coupon Rate	Total
Maturing in:										
1988	$ —		$ —		$ —	$ 351	9.5	$ 113	5.8	$ 464
1989	427	13.4	166	7.8	593	436	13.4	160	7.8	596
1990	294	14.0	290	10.3	584	303	13.9	299	10.1	602
1991	36	9.5	111	7.8	147	37	9.5	127	8.1	164
1992	127	6.8	249	7.1	376	134	5.8	265	8.5	399
1993	281	12.6	164	6.9	445	—		—		—
1—5 years	1,165	12.5	980	8.2	2,145	1,261	12.0	964	8.4	2,225
6-10 years	499	10.4	791	8.2	1,290	1,023	10.2	865	7.5	1,888
11-15 years	124	10.3	1,121	9.7	1,245	131	10.3	804	9.7	935
16-20 years	649	8.8	1,099	11.2	1,748	424	9.1	1,566	10.7	1,990
21-25 years	1,547	14.3	151	13.5	1,698	1,893	13.5	150	13.5	2,043
Total long-term debt	3,984 ($ 3,204 U.S.)	12.3	4,142	9.6	8,126	4,732 ($ 3,624 U.S.)	11.9	4,349	9.5	9,081
Less: Sinking funds	382 ($ 309 U.S.)		674		1,056	446 ($ 342 U.S.)		730		1,176
	3,602		3,468		7,070	4,286		3,619		7,905
Less: Payments due within one year	434		191		625	301		132		433
Net long-term debt	$ 3,168		$ 3,277		$ 6,445	$ 3,985		$ 3,487		$ 7,472
Issues Outstanding	21		124		145	33		135		168

GUARANTEE BY THE PROVINCE OF BRITISH COLUMBIA

B.C. Hydro's short-term borrowings and long-term debt outstanding is either held, or guaranteed as to principal, interest and premium, if any, by the Province.

SINKING FUNDS

Sinking funds are held by the Trustee, the Minister of Finance and Corporate Relations for the Province. Nearly all debt series have annual sinking fund requirements. Sinking fund income is recorded as a reduction of finance charges.

Sinking fund changes in the year comprised:	1988	1987	1986
Instalments	$ 102	$ 157	$ 95
Income reinvested	99	104	98
Surpluses recovered	(123)	—	—
	78	261	193
Withdrawals - debt repayment	(75)	(159)	(61)
- debt extinguishment	(100)	—	—
Foreign exchange adjustments	(23)	38	4
Total sinking fund changes	$ (120)	$ 140	$ 136

EXTINGUISHED DEBT

During the year B.C. Hydro purchased $82 million of Province of British Columbia securities with monies from sinking funds related to ten long-term debt issues having principal outstanding of $100 million. These securities were placed in an irrevocable trust with the Trustee and, as they provide sufficient funds to service and retire the debt, there is no requirement for future sinking fund instalments on these issues.

The accumulated sinking funds on these ten issues totalled $124 million at the time of this transaction and, consequently, the Trustee released the remaining $42 million in surplus funds, increasing working capital by that amount.

The ten long-term debt issues are considered extinguished for financial reporting purposes and, together with the related sinking funds, have been removed from B.C. Hydro's balance sheet. The gain arising from the difference between the $100 million of extinguished debt and the $82 million of securities purchased has been recorded as a reduction in finance charges (Note 9).

CASH REQUIREMENTS

Total maturity payments and sinking fund instalments on long-term debt outstanding at March 31, 1988, by year of payment are highlighted in the following table. U.S. cash requirements are shown in millions of U.S. dollars.

	Sinking Funds		Net Debt Maturities*		Total	
	U.S.	Cdn.	U.S.	Cdn.	U.S.	Cdn.
1989	$ 39	$ 48	$ 302	$ 143	$ 341	$ 191
1990	35	45	194	282	229	327
1991	35	44	28	91	63	135
1992	32	43	53	184	85	227
1993	28	42	135	112	163	154
1989 - 1993	169	222	712	812	881	1,034
1994 - 1998	118	191	338	345	456	536
1999 - 2003	108	141	—	149	108	290
2004 - 2008	85	23	—	239	85	262
2009 - 2013	47	3	191	22	238	25
	$ 527	$ 580	$ 1,241	$ 1,567	$ 1,768	$ 2,147

*Net debt maturities are determined after deducting sinking funds estimated to be available at maturity. This estimate is based on assumed earnings of 8.4% on existing sinking fund investments and future sinking fund instalments.

FOREIGN CURRENCY EXPOSURE - PRINCIPAL

At March 31, 1988 U.S. $315 million of debt due within two years was hedged with forward exchange contracts having a weighted average exchange rate of 76.7 cents U.S. per Canadian dollar and U.S. $309 million of debt was hedged by the purchase of U.S. dollar denominated securities for related sinking funds. As a result of these transactions, debt repayments, and the refinancing of U.S. debt to Canadian debt, B.C. Hydro has reduced its foreign currency exposure related to U.S. long-term debt by U.S. $702 million to U.S. $2,580 million. The March 31, 1988 foreign exchange rate used by B.C. Hydro was 80.83 U.S. cents per Canadian dollar.

REDEMPTION PROVISIONS

Certain B.C. Hydro debt held by the Canada Pension Plan Investment Fund and by the Minister of Finance and Corporate Relations of the Province contains provisions allowing holders to redeem the debt prior to maturity, in whole or in part, subject to certain restrictions. At March 31, 1988 this debt amounted to $752 million (1987 $836 million) net of sinking funds.

NOTE 8 SHORT-TERM BORROWINGS

Short-term borrowings are at prevailing money market rates and averaged 8.7% at March 31, 1988 (1987 - 8.0%).

NOTE 9 FINANCE CHARGES

Years ended March 31	1988	1987	1986
Interest on long-term debt	$ 954	$ 988	$ 1,017
Interest on short-term borrowings	15	8	—
Amortization of foreign exchange gains and losses	10	11	54
Amortization of discount and issue costs	14	15	15
Other	2	1	4
	995	1,023	1,090
Less:			
Income from sinking fund investments	98	104	98
Income from temporary investments	1	6	15
Gain on extinguished debt	18	—	—
	117	110	113
	878	913	977
Less: Finance charges capitalized	3	7	51
	$ 875	$ 906	$ 926

The effective rate for finance charges capitalized to unfinished construction for fiscal 1988 was 9.2% (1987 - 10.6%; 1986 - 12.8%).

NOTE 10 PENSION PLANS

Employees of B.C. Hydro contribute to jointly-funded pension plans which specify the pensions payable upon retirement based on a percentage of earnings for designated years of service (contributory benefit-based plans). A portion of the contribution is to provide for annual cost-of-living increases (indexing).

Both the basic contribution and the indexing contribution are matched by B.C. Hydro. In addition, B.C. Hydro is contributing annual amounts to fund past service pension costs and accrued deficits which arose in prior years from plan amendments and changes in actuarial assumptions.

Annual actuarial valuations are obtained to determine the amount required in today's dollars to fund the pension benefits which have accrued to date (present value of accrued pension benefits). This is compared with the average market-related value of the pension fund assets to determine whether a net pension surplus or deficit exists. A preliminary actuarial report update dated April 25, 1988 estimated the present value of the accrued pension benefits to be $725 million as at December 31, 1987 and the pension plan assets available for these benefits at $740 million.

NOTE 11 COMPARATIVE FIGURES

Certain of the 1987 and 1986 comparative figures have been reclassified to conform with the current year's presentation.

NOTE 12 EXTRAORDINARY ITEMS

In fiscal 1987, expenditures of $29 million relating to the Vancouver Island gas pipeline project were written off, and property purchased for a new B.C. Hydro head office building was written down by $13 million to appraised value.

NOTE 13 SEGMENT INFORMATION

B.C. Hydro is engaged in the operation of three principal services: generation, transmission and distribution of electricity; distribution of gas; and provision of a rail service.

Most expenses are directly attributable to specific services and common expenses are allocated among the services. The allocation method used generally follows the full absorption approach whereby all costs are allocated amongst services. Export expenses include only direct costs, namely energy purchases, including transmission charges, and water rentals. This segment information does not consider the costs that may be incurred if each serivce were a separate legal entity. In this instance the costs incurred by each service would be different.

Identifiable assets are those assets that are used in each service's operations. Corporate assets are principally temporary investments and unamortized deferred charges.

	Electric			Gas			Rail			Combined		
Years ended March 31	**1988**	1987	1986	**1988**	1987	1986	**1988**	1987	1986	**1988**	1987	1986
Revenues	**$1,718**	$ 1,579	$ 1,647	**$ 370**	$ 385	$ 423	**$ 22**	$ 23	$ 24	**$2,110**	$ 1,987	$ 2,094
Expenses:												
Employee compensation	**195**	164	180	**41**	35	35	**11**	9	11	**247**	208	226
Materials and services	**56**	55	56	**11**	9	9	**4**	6	2	**71**	70	67
Energy purchases	**52**	29	48	**229**	251	280	**—**	—	—	**281**	280	328
Taxes	**296**	319	309	**9**	10	10	**1**	1	2	**306**	330	321
Depreciation	**218**	214	198	**17**	17	13	**2**	2	2	**237**	233	213
Total expenses	**817**	781	791	**307**	322	347	**18**	18	17	**1,142**	1,121	1,155
Operating income before finance charges	**901**	798	856	**63**	63	76	**4**	5	7	**968**	866	939
Finance charges	**827**	854	874	**46**	49	50	**2**	3	2	**875**	906	926
Operating income (loss)	**74**	(56)	(18)	**17**	14	26	**2**	2	5	**93**	(40)	13
Transfer to rate stabilization account	**(110)**	(56)	(85)	**—**	—	—	**—**	—	—	**(110)**	(56)	(85)
Transfer from rate stabilization account	**72**	163	81	**—**	—	—	**—**	—	—	**72**	163	81
Income (loss) before extraordinary items	**$ 36**	$ 51	$ (22)	**$ 17**	$ 14	$ 26	**$ 2**	$ 2	$ 5	**$ 55**	$ 67	$ 9
Identifiable assets	**$8,453**	$ 8,609	$ 8,686	**$ 520**	$ 496	$ 530	**$ 44**	$ 46	$ 47	**$9,017**	$ 9,151	$ 9,263
Corporate assets										**544**	651	1,194
Total assets										**$9,561**	$ 9,802	$10,457
Expenditures on fixed assets	**$ 163**	$ 157	$ 195	**$ 31**	$ 29	$ 28	**$ 1**	$ 1	$ 1	**$ 195**	$ 187	$ 224

The Electric Service derives its revenues from both domestic and export sales, the details of which are outlined below:

	Domestic			Export			Total		
Years ended March 31	**1988**	1987	1986	**1988**	1987	1986	**1988**	1987	1986
Revenues	**$1,534**	$ 1,486	$ 1,395	**$ 184**	$ 93	$ 252	**$1,718**	$ 1,579	$ 1,647
Expenses:									
Employee compensation	**195**	164	180	**—**	—	—	**195**	164	180
Materials and services	**56**	55	56	**—**	—	—	**56**	55	56
Energy purchases	**11**	13	15	**41**	16	33	**52**	29	48
Taxes	**263**	298	272	**33**	21	37	**296**	319	309
Depreciation	**218**	214	198	**—**	—	—	**218**	214	198
Total expenses	**743**	744	721	**74**	37	70	**817**	781	791
Operating income before finance charges	**791**	742	674	**110**	56	182	**901**	798	856
Finance charges	**827**	854	874	**—**	—	—	**827**	854	874
Operating income (loss)	**(36)**	(112)	(200)	**110**	56	182	**74**	(56)	(18)
Transfer to rate stabilization account	**—**	—	—	**(110)**	(56)	(85)	**(110)**	(56)	(85)
Transfer from rate stabilization account	**72**	163	81	**—**	—	—	**72**	163	81
Income (loss) before extraordinary items	**$ 36**	$ 51	$ (119)	**$ —**	$ —	$ 97	**$ 36**	$ 51	$ (22)

NOTE 14 SUBSEQUENT EVENT - SALE OF BUSINESSES

On October 23, 1987 the Province announced a plan to sell certain businesses of B.C. Hydro which included the Mainland and Victoria gas services, the rail service and the research and development division. B.C. Hydro issued Information Memoranda to prospective purchasers detailing the manner of disposal.

The net book value of identifiable assets and identifiable current liabilities of the businesses as at March 31, 1988 were:

	Mainland Gas	Victoria Gas	Rail	Research & Development	Total
Fixed Assets	$ 543	$ 19	$ 47	$ 41	$ 650
Less: Accumulated depreciation	114	6	22	7	149
	429	13	25	34	501
Current assets	77	1	19	1	98
Less: Current liabilities	52	1	29	3	85
	25	—	(10)	(2)	13
Net assets	$ 454	$ 13	$ 15	$ 32	$ 514

The Mainland gas service and the rail service have been sold effective July and August 1988 for approximately $741 million and $32 million respectively. Negotiations are continuing for the sale of the other businesses. A portion of these sale proceeds, equivalent to the book value of the assets sold, will be used to retire debt held by B.C. Hydro while the remainder, after deducting the cost of the sales, pension liabilities created by the sale, and all other associated costs, will be distributed to the Province.

Segmented income statements which include the Mainland and Victoria gas services and the rail service are provided in Note 13. The total costs associated with the research and development division of $15 million in fiscal 1988 were allocated to other divisions. The segmented information is prepared on the basis of the existing cost allocation system at B.C. Hydro. The costs disclosed in the segments are therefore not necessarily indicative of cost savings to be realized by B.C. Hydro subsequent to the sale of these businesses.

Funds provided by these businesses totalled $6 million in fiscal 1988 comprised of $38 million from operating activities less net fixed asset expenditures of $32 million.

TOTAL REQUIREMENTS FOR ELECTRICITY AND SOURCES OF SUPPLY

	1988 KW·h in Millions	%	1987 KW h in Millions	%
REQUIREMENTS				
Domestic	**36 089**	**72.5**	34 417	80.8
Export	**9 481**	**19.0**	4 665	10.9
Line loss and system use	**4 219**	**8.5**	3 553	8.3
	49 789	**100.0**	42 635	100.0
SOURCES OF SUPPLY				
Hydroelectric generation				
Gordon M. Shrum	**17 508**	**35.2**	11 415	26.8
Revelstoke	**8 269**	**16.6**	8 195	19.2
Mica	**7 698**	**15.5**	7 871	18.5
Peace Canyon	**4 357**	**8.7**	2 858	6.7
Kootenay Canal	**2 918**	**5.9**	3 260	7.6
Bridge River	**2 662**	**5.3**	2 111	5.0
Seven Mile	**2 304**	**4.6**	2 579	6.0
Other	**4 278**	**8.6**	4 592	10.8
Thermal generation				
Burrard	**2**	**-**	1	-
Other	**146**	**0.3**	154	0.3
Purchases and other transactions	**(353)**	**(0.7)**	(401)	(0.9)
	49 789	**100.0**	42 635	100.0

GENERATING NAMEPLATE CAPACITY
as at March 31, 1988

	(kW in thousands)
Hydroelectric plants	
Gordon M. Shrum	2 416
Revelstoke	1 843
Mica	1 736
Peace Canyon	700
Seven Mile	608
Kootenay Canal	529
Bridge River	428
Other	1 072
Total hydroelectric	9 332
Thermal plants	
Burrard	912
Gas turbine	146
Diesel	83
Total thermal	1 141
Total generating capacity	10 473

OPERATING STATISTICS

years ended March 31

	1988	1987	1986	1985	1984	1983	1982
ELECTRIC SERVICE							
Generating nameplate capacity at year-end* (rated kW in thousands)							
Hydroelectric	**9 332**	9 332	9 332	9 332	7 489	7 491	7 491
Thermal	**1 141**	1 149	1 151	1 171	1 271	1 341	1 347
Total	**10 473**	10 481	10 483	10 503	8 760	8 832	8 838
Peak one-hour demand; integrated system (kW in thousands)	**6 830**	6 345	6 816	6 193	6 215	5 508	5 90.
Customers at year-end							
Residential	**1 062 213**	1 041 784	1 023 468	1 005 533	987 659	967 754	943 587
General	**142 707**	139 936	137 051	134 018	133 652	132 383	130 819
Transmission	**80**	81	72	67	70	65	6.
Other**	**2 527**	2 445	2 353	2 265	2 336	2 227	2 43.
Export	**23**	20	21	22	16	13	1.
Total	**1 207 550**	1 184 266	1 162 965	1 141 905	1 123 733	1 102 442	1 076 91
Electricity sold (kW h in millions)							
Residential	**9 986**	9 779	9 649	9 667	9 067	8 790	8 75
General	**11 695**	11 137	10 770	10 285	9 957	9 736	9 72
Transmission	**13 412**	12 582	11 681	10 957	9 240	9 040	9 30
Other**	**996**	919	757	593	805	1 074	1 17
Domestic	**36 089**	34 417	32 857	31 502	29 069	28 640	28 96
Export	**9 481**	4 665	9 407	6 378	2 834	3 623	6 31
Total	**45 570**	39 082	42 264	37 880	31 903	32 263	35 27
Increase (decrease) %	**16.6**	(7.5)	11.6	18.7	(1.1)	(8.5)	17
Electric revenues (dollars in millions)							
Residential	**$ 548**	$ 539	$ 517	$ 509	$ 448	$ 410	$ 34
General	**547**	524	498	469	425	389	32
Transmission	**373**	348	322	307	249	228	16
Other**	**48**	46	37	28	31	34	3
Rents and misc	**18**	29	21	18	12	14	2
Domestic	**1,534**	1,486	1,395	1,331	1,155	1,075	89
Export	**184**	93	252	182	75	97	23
Total	**$ 1,718**	$ 1,579	$ 1,647	$ 1,513	$ 1,230	$ 1,172	$ 1,12
Average revenue per kW h (cents)							
Residential	**5.5**	5.5	5.4	5.3	4.9	4.7	4
General	**4.7**	4.7	4.6	4.6	4.3	4.0	3
Transmission	**2.8**	2.8	2.8	2.8	2.6	2.5	1
Other**	**4.9**	5.1	4.9	4.8	3.8	3.1	2
Export	**1.9**	2.0	2.7	2.9	2.7	2.7	3
Average annual kW h use per residential customer	**9 385**	9 472	9 427	9 678	9 267	9 214	9 41
Lines in service — Distribution (km)	**47 754**	47 178+	46 533+	45 795+	44 737+	42 231	40 7
— Transmission (circuit km)	**17 056**	17 056	17 197	16 996	16 701	16 543	16 0
GAS SERVICE							
One-day capacity at year-end (terajoules)~							
Mainland — firm pipeline contracts	**404**	404	393	393	393	428	4.
— plant	**164**	164	164	164	164	164	1
— underground storage	**66**	66	66	66	56		
Greater Victoria — plant	**6**	6	6	6	6	6	
Peak one-day demand (terajoules)							
Mainland — including interruptible	**619**	569	656	593	610	493	5
— excluding interruptible	**540**	488	655	526	609	419	5
Greater Victoria	**2**	2	2	2	2	1	
Customers at year-end							
Residential	**354 899**	344 315	331 329	323 750	312 444	304 326	294 8
General	**42 095**	40 759	39 632	38 402	37 859	37 443	36 4
Interruptible	**109**	104	104	103	103	99	
Total	**397 103**	385 178	371 065	362 255	350 406	341 868	331 4
Gas sold (terajoules)							
Residential	**38 162**	37 597	40 100	41 044	36 091	33 646	37 6
General	**35 129**	35 393	36 729	36 534	33 118	32 367	36 0
Interruptible	**21 089**	19 488	21 418	22 057	20 316	19 956	22 4
Total	**94 380**	92 478	98 247	99 635	89 525	85 969	96 2
Increase (decrease) %	**2.1**	(5.9)	(1.4)	11.3	4.1	(10.7)	1.
Gas Revenues (dollars in millions)							
Residential	**$ 178**	$ 177	$ 191	$ 187	$ 162	$ 145	$ 1
General	**145**	153	161	154	135	126	1
Interruptible	**46**	53	69	72	65	60	
Rents and other	**1**	2	2	2	1	1	
Total	**$ 370**	$ 385	$ 423	$ 415	$ 361	$ 332	$ 4
Average revenue per gigajoule (dollars)	**$ 3.91**	$ 4.14	$ 4.29	$ 4.14	$ 4.02	$ 3.85	$ 3
RAIL SERVICE							
Freight carried (tonnes in thousands)	**1 868**	1 712	1 977	1 837	2 005	1 784	2 3

* Excludes electricity available from other systems. Rated capacity has been exceeded on occasion.

** Includes Irrigation, Street Lighting and deliveries to Seattle under the Skagit River agreements.

\+ Includes B.C. Hydro lines on private property.

~ Mainland capacities based on 38.57 MJ/m³ heating value.

1981	1980	1979	1978
7 491	6 588	5 883	5 883
1 346	1 360	1 363	1 293
8 837	7 948	7 246	7 176
5 475	5 198	5 091	4 621
915 270	882 923	858 397	829 266
128 163	124 754	123 124	121 407
59	55	52	48
2 636	2 166	2 487	1 730
10	14	16	15
046 138	1 009 912	984 076	952 464
8 104	7 611	7 407	7 040
9 377	8 925	8 596	8 137
9 612	9 229	9 147	8 527
1 129	688	623	446
28 222	26 453	25 773	24 150
1 816	870	1 310	3 907
30 038	27 323	27 083	28 057
9.9	0.9	(3.5)	12.8
$ 312	$ 267	$ 255	$ 217
301	261	246	205
153	120	105	85
29	19	18	14
24	15	14	12
819	682	638	533
63	35	33	78
$ 882	$ 717	$ 671	$ 611
3.8	3.5	3.4	3.1
3.2	2.9	2.9	2.5
1.6	1.3	1.1	1.0
2.6	2.8	2.9	3.1
3.5	4.1	2.5	2.0
9 001	8 736	8 747	8 620
39 472	38 279	37 125	36 129
15 335	15 258	14 793	14 259
402	393	437	437
164	164	164	164
6	6	6	6
493	507	510	404
488	486	508	402
2	2	2	2
282 894	263 036	252 032	245 638
35 374	34 537	33 684	32 596
98	103	103	101
318 366	297 676	285 819	278 335
31 806	31 962	32 450	31 215
32 057	32 085	34 001	30 568
21 758	24 027	21 282	21 490
85 621	88 074	87 733	83 273
(2.8)	0.4	5.4	4.1
$ 81	$ 75	$ 74	$ 66
70	64	66	46
33	33	29	23
1	1	1	1
$ 185	$ 173	$ 170	$ 136
$ 2.14	$ 1.95	$ 1.93	$ 1.62
2 458	2 603	2 536	2 397